

In the opinion of each of Co-Special Counsel, under existing laws, the portion of the Installment Payments designated and paid as interest with respect to the 2003 Certificates (1) is not excludable from gross income for federal income tax purposes and (2) is exempt from all State of North Carolina income taxation. See "TAX TREATMENT" herein.

\$14,000,000
Taxable Certificates of Participation
Series 2003

**Evidencing Proportionate Undivided Interests
in the Rights to Receive Certain Revenues Pursuant to
an Installment Purchase Contract Between
New Durham Corporation and the**

CITY OF DURHAM, NORTH CAROLINA

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

The Taxable Certificates of Participation, Series 2003 offered hereby (the "2003 Certificates"), will be executed and delivered pursuant to an Indenture of Trust, dated as of August 1, 2003 (the "Indenture"), between New Durham Corporation (the "Corporation") and Deutsche Bank National Trust Company, Charlotte, North Carolina, as trustee (the "Trustee"). The proceeds of the 2003 Certificates will be advanced to the City of Durham, North Carolina (the "City") to be used, together with other available funds, to pay (a) the costs of acquiring, constructing and equipping a parking facility as described herein and (b) the costs incurred in connection with the execution, sale and delivery of the 2003 Certificates.

The proceeds of the 2003 Certificates will be advanced by the Corporation to the City pursuant to the terms of an Installment Purchase Contract, dated as of August 1, 2003 (the "Contract"), between the City and the Corporation. The 2003 Certificates evidence proportionate undivided interests in the rights to receive Revenues (as defined herein) under the Contract. The City's obligations under the Contract will be secured by a Deed of Trust and Security Agreement, dated as of August 1, 2003 (the "Deed of Trust"), from the City to the Deed of Trust trustee named therein for the benefit of the Corporation, granting a first lien of record on the Premises (as defined herein), subject to Permitted Encumbrances (as defined herein). Pursuant to the Indenture, the Corporation will assign to the Trustee, for the benefit of the registered owners of the 2003 Certificates and any Additional Certificates (as defined herein), (a) substantially all of its rights under the Contract, including its right to receive the installment payments thereunder, and (b) all of its rights under the Deed of Trust. The 2003 Certificates will be payable on a parity with any Additional Certificates. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 CERTIFICATES" herein.

The 2003 Certificates will be delivered only in fully registered form, and when delivered will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2003 Certificates. Individual purchases of the 2003 Certificates will be made in denominations of \$5,000 or whole multiples thereof. So long as Cede & Co. is the registered owner, as nominee for DTC, references herein to registered owners or Owners shall mean Cede & Co. and shall not mean the beneficial owners of the 2003 Certificates. So long as Cede & Co. is the registered owner of the 2003 Certificates, the principal and interest with respect to the 2003 Certificates will be payable by the Trustee to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners. See Appendix D hereto.

The 2003 Certificates are subject to optional, extraordinary and mandatory sinking fund prepayment prior to their maturity as described herein.

THE PRINCIPAL, PREMIUM, IF ANY, AND INTEREST WITH RESPECT TO THE 2003 CERTIFICATES ARE PAYABLE SOLELY FROM AMOUNTS PAYABLE BY THE CITY PURSUANT TO THE CONTRACT, AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS UNDER THE INDENTURE AND, TO THE EXTENT PROVIDED IN THE INDENTURE, THE PROCEEDS DERIVED FROM THE EXERCISE OF CERTAIN RIGHTS AND REMEDIES GRANTED UNDER THE CONTRACT, INCLUDING FORECLOSURE AND SALE OF THE PREMISES PURSUANT TO THE DEED OF TRUST. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE CITY IN ANY ACTION FOR BREACH OF THE CONTRACT OR THE DEED OF TRUST, AND THE TAXING POWER OF THE CITY IS NOT PLEDGED DIRECTLY OR INDIRECTLY TO SECURE ANY MONEYS DUE TO THE OWNERS OF THE 2003 CERTIFICATES.

The 2003 Certificates are offered, subject to prior sale, when, as and if delivered by the Trustee and accepted by the Underwriters, subject to the approval of their validity and certain other matters by Parker Poe Adams & Bernstein L.L.P., Charlotte, North Carolina, and The Banks Law Firm, P.A., Research Triangle Park, North Carolina, Co-Special Counsel. Certain legal matters will be passed on for the City by Henry D. Blinder, Esq., Durham, North Carolina, City Attorney, for the Corporation by Wyrick Robbins Yates & Ponton LLP, Raleigh, North Carolina, and for the Underwriters by Womble Carlyle Sandridge & Rice, PLLC, Raleigh, North Carolina. Public Financial Management, Inc., San Francisco, California, is serving as Financial Advisor to the City. It is expected that delivery of the 2003 Certificates will be made through the facilities of DTC on or about August 27, 2003.

Citigroup

Jackson Securities

August 15, 2003

MATURITY SCHEDULE

\$6,915,000 Serial Certificates

<u>Due June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Due June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2004	\$540,000	1.50%	1.50%	2009	\$705,000	4.40%	4.49%
2005	705,000	2.34	2.34	2010	710,000	4.90	5.00
2006	705,000	3.10	3.10	2011	710,000	5.20	5.30
2007	710,000	3.71	3.71	2012	710,000	5.59	5.59
2008	710,000	4.20	4.20	2013	710,000	5.64	5.64

\$7,085,000 6.40% Term Certificates due June 1, 2023 - Yield 6.48%

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the 2003 Certificates offered hereby, nor shall there be any offer or solicitation of such offer or sale of the 2003 Certificates in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the 2003 Certificates implies that the information herein is correct as of any date subsequent to the date thereof.

The information contained herein has been obtained from the City, the Corporation and other sources believed to be reliable. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2003 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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\$14,000,000
Taxable Certificates of Participation
Series 2003

**Evidencing Proportionate Undivided Interests
in the Rights to Receive Certain Revenues Pursuant to
an Installment Purchase Contract Between
New Durham Corporation and the**

CITY OF DURHAM, NORTH CAROLINA

INTRODUCTION

The purpose of this Official Statement, which includes the appendices, is to provide certain information in connection with the execution, sale and delivery of \$14,000,000 Taxable Certificates of Participation, Series 2003 (the “2003 Certificates”). The 2003 Certificates evidence proportionate undivided interests in the rights to receive certain Revenues (hereinafter defined) pursuant to an Installment Purchase Contract, dated as of August 1, 2003 (the “Contract”), between the City of Durham (the “City”) and New Durham Corporation (the “Corporation”).

The 2003 Certificates will be executed and delivered pursuant to the provisions of an Indenture of Trust, dated as of August 1, 2003 (the “Indenture”), between the Corporation and Deutsche Bank National Trust Company, as trustee (the “Trustee”), authorizing the execution and delivery of, and setting forth the details of, the 2003 Certificates.

Authorization. The City will enter into the Contract pursuant to the provisions of Section 160A-20 of the General Statutes of North Carolina, as amended. The Contract is subject to the approval of, and has been approved by, the Local Government Commission of North Carolina (the “LGC”). See “THE LOCAL GOVERNMENT COMMISSION” herein.

Purpose. The proceeds of the 2003 Certificates will be used to provide funds to the City to be used, together with other available funds, to (a) pay the costs of acquiring, constructing and equipping a parking facility in the City as described under “THE PROJECT” herein (the “Project”) and (b) pay the financing costs associated with the sale and delivery of the 2003 Certificates.

Security. The City is required under the Contract to make certain payments (the “Installment Payments”) in an amount sufficient to pay the principal and interest with respect to the outstanding 2003 Certificates and any Additional Certificates hereafter executed and delivered pursuant to the Indenture, subject to its right of nonappropriation as described herein. As security for its obligations under the Contract, the City will execute and deliver to a deed of trust trustee, for the benefit of the Corporation, a Deed of Trust and Security Agreement, dated as of August 1, 2003 (the “Deed of Trust”), granting a first lien of record on the site of the parking facility being acquired and constructed as part of the Project, as more particularly described in Exhibit A of the Deed of Trust, and all building, fixtures and other improvements located thereon and appurtenances thereto (the “Premises”), subject only to Permitted Encumbrances (as defined in the Deed of Trust), including the lease and parking space agreement described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2003 CERTIFICATES – Deed of Trust” herein. The Deed of Trust will authorize future obligations evidenced by Additional Certificates to be secured by the Deed of Trust, provided that the total amount of present and future obligations secured by the Deed of Trust at any one time does not exceed \$100,000,000 and such future obligations are incurred not later than 15 years from the date of the Deed of Trust.

Pursuant to the Indenture, the Corporation will assign to the Trustee, for the benefit of the Owners of the 2003 Certificates and any Additional Certificates, (a) substantially all of its rights, title and interest in and to the Contract, including its rights to receive the Installment Payments, and (b) all of its rights, title and interest in and to the Deed of Trust, and will grant to the Trustee a lien on and security interest in all moneys held by the Trustee in the funds and accounts created under the Indenture. Pursuant to the Contract, Installment Payments payable by the City will be paid directly to the Trustee.

The 2003 Certificates will be payable and secured by the Deed of Trust on a parity with any Additional Certificates hereafter executed and delivered pursuant to the Indenture.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2003 CERTIFICATES” herein.

Details of the 2003 Certificates. The 2003 Certificates will be dated as of their date of delivery, and will mature, subject to the prepayment provisions described herein, on June 1 in the years and amounts set forth on the inside cover hereof. Interest with respect to the 2003 Certificates will be payable on each June 1 and December 1, beginning December 1, 2003, at the rates set forth on the inside cover hereof. Individual purchases of the 2003 Certificates will be made in denominations of \$5,000 or whole multiples thereof.

Book-Entry-Only Form. The 2003 Certificates will be delivered as fully registered certificates in book-entry-only form without physical delivery of certificates to the beneficial owners of the 2003 Certificates. The Trustee will make payments of principal and interest with respect to the 2003 Certificates to The Depository Trust Company, New York, New York (“DTC”), which will in turn remit such payments to its direct participants for subsequent distribution to the beneficial owners of the 2003 Certificates. See Appendix D hereto for further information regarding DTC and the book-entry-only system.

Tax Status. See “TAX TREATMENT” herein.

Continuing Disclosure. Pursuant to the Contract, the City will undertake to provide continuing disclosure of certain annual financial information and operating data and certain material events. See “CONTINUING DISCLOSURE” herein.

Professionals. Citigroup Global Markets Inc., Charlotte, North Carolina, and Jackson Securities, LLC, Atlanta, Georgia (the “Underwriters”), are underwriting the 2003 Certificates. Parker Poe Adams & Bernstein L.L.P., Charlotte, North Carolina, and The Banks Law Firm, P.A., Research Triangle Park, North Carolina, are serving as Co-Special Counsel. Henry D. Blinder, Esq., Durham, North Carolina, is the City Attorney. Wyrick Robbins Yates & Ponton LLP, Raleigh, North Carolina, is serving as counsel to the Corporation. Womble Carlyle Sandridge & Rice, PLLC, Raleigh, North Carolina, is serving as counsel to the Underwriters. Public Financial Management, Inc., San Francisco, California, is serving as Financial Advisor to the City. Deutsche Bank National Trust Company, Charlotte, North Carolina, is serving as the Trustee.

Definitions; Document Summaries. See Appendix B for a summary of certain provisions of the Contract, the Indenture and the Deed of Trust and for the definition of certain capitalized terms used herein. Unless otherwise indicated, capitalized terms used herein and not otherwise defined shall have the same meanings given such terms in the Contract and the Indenture.

Additional Information. Additional information and copies in reasonable quantity of the principal financing documents may be obtained during the offering period from the Underwriters at Citigroup Global Markets Inc., 6101 Carnegie Blvd., 2nd Floor, Charlotte, North Carolina 28209, Attention: Public

Finance, Telephone (704) 571-3229. After the offering period, copies of such documents may be obtained from the Trustee at Deutsche Bank National Trust Company, 200 South Tryon Street, Suite 550, Charlotte, North Carolina 28202.

THE 2003 CERTIFICATES

General

The 2003 Certificates will be dated as of their date of delivery, and will mature, subject to prior prepayment as described below, on June 1 in the years and amounts set forth on the inside cover hereof. Interest with respect to the 2003 Certificates will be payable on each June 1 and December 1, beginning December 1, 2003, at the rates set forth on the inside cover hereof.

The 2003 Certificates will be delivered as fully registered certificates in book-entry-only form without physical delivery of certificates to the beneficial owners of the 2003 Certificates. The Trustee will make payments of principal and interest with respect to the 2003 Certificates to The Depository Trust Company, New York, New York (“DTC”), which will in turn remit such payments to its direct participants for subsequent distribution to the beneficial owners of the 2003 Certificates. Individual purchases of the 2003 Certificates will be made only in denominations of \$5,000 or whole multiples thereof. See Appendix D hereto for further information regarding DTC and the book-entry-only system.

Prepayment Provisions

Optional Prepayment. The 2003 Certificates maturing on or before June 1, 2013 will not be subject to prepayment prior to their maturity. The 2003 Certificates maturing on or after June 1, 2014 will be subject to optional prepayment from any available moneys, in whole or in part on any date on or after June 1, 2013, at the option of the City, at a prepayment price equal to 100% of the principal amount of the 2003 Certificates to be prepaid, plus accrued interest to the prepayment date, all in the manner provided in the Indenture.

Mandatory Prepayment. The 2003 Certificates maturing on June 1, 2023 will be subject to mandatory prepayment on June 1 in each of the following years and amounts at a prepayment price equal to the principal amount of 2003 Certificates to be prepaid, plus accrued interest to the date fixed for prepayment, without premium:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2014	\$710,000	2019	\$710,000
2015	710,000	2020	710,000
2016	710,000	2021	705,000
2017	710,000	2022	705,000
2018	710,000	2023*	705,000

* Maturity

Extraordinary Prepayment. Under certain circumstances described below, the 2003 Certificates will be subject to prepayment in whole or in part on any date selected by the City prior to maturity from Net Proceeds or any additional moneys available therefor in the event that Net Proceeds are deposited into the Prepayment Fund.

In the event of loss or damage to the Facilities or condemnation of the Real Property or the Facilities resulting in Net Proceeds in excess of \$100,000, if the Net Proceeds (plus any amount withheld therefrom by reason of any deductible clause) are insufficient to pay in full the cost of any repair, restoration, modification, improvement or replacement of the Facilities as required by the Contract and if the City has otherwise performed all of its obligations under the Contract, the City may apply such Net Proceed to prepay the 2003 Certificates on forty-five (45) days' notice to the Trustee at a prepayment price equal to 100% of the par amount of the 2003 Certificates plus accrued interest to the prepayment date, by depositing such Net Proceeds into the Prepayment Fund. If, however, the City uses other available moneys to prepay the Purchase Price in whole or in part, then the amount of such available moneys may not exceed one-third of the amount of Net Proceeds so applied. See "The Contract - Prepayment and - Damage, Destruction or Condemnation; Use of Net Proceeds" in Appendix B.

In the event of a prepayment in part of the 2003 Certificates or any Additional Certificates pursuant to an extraordinary prepayment, the Installment Payments will be correspondingly reduced.

General Prepayment Provisions. If the 2003 Certificates are prepaid in part, the amounts of each maturity of the 2003 Certificates to be prepaid will be selected by the City (in whole multiples of \$5,000). The 2003 Certificates within the same maturity to be prepaid will be selected (a) by DTC pursuant to its rules and procedures or (b) if the book-entry system with respect to the 2003 Certificates is discontinued, by the Trustee, as the case may be, by lot in such manner as the Trustee in its discretion may determine; provided, however, that, the 2003 Certificates or portions thereof will be prepaid only in whole multiples of \$5,000.

Notice of prepayment identifying the 2003 Certificates or portions thereof to be prepaid shall be given by the Trustee, as the case may be, in writing not less than 30 days nor more than 60 days before the date fixed for prepayment by first-class mail, postage prepaid (registered or certified mail in the case of notice to DTC) (a) to DTC or its nominee or, if DTC or its nominee is no longer the Owner of the 2003 Certificates, to the then-registered Owners of the 2003 Certificates to be prepaid at their addresses appearing on the registration books maintained by the Trustee, (b) to the LGC, (c) to each of the then-existing securities depositories and (d) to at least two of the then-existing national information services that disseminate redemption notices; provided, however, that, (i) if notice is given, failure to receive an appropriate notice or any such notice shall not affect the validity of the proceedings for such prepayment and (ii) failure to give any notice to any Owner shall not affect the validity of any proceedings for the prepayment of any 2003 Certificates with respect to which notice was correctly given. Any notice mailed as provided in the Indenture will be conclusively presumed to have been duly given, whether or not the Owner receives the notice.

If at the time of mailing of notice of prepayment, there shall not have been deposited with the Trustee moneys sufficient to prepay all the 2003 Certificates called for prepayment, which moneys are or will be available for prepayment of such 2003 Certificates, such notice will state that it is conditional on the deposit of the prepayment moneys with the Trustee not later than the opening of business on the prepayment date, and such notice shall be of no effect unless such moneys are so deposited.

The 2003 Certificates or portions thereof called for prepayment will be due and payable on the prepayment date at the prepayment price, together with accrued interest thereon to the prepayment date. If any required notice of prepayment has been given and moneys sufficient to pay the prepayment price, together with accrued interest thereon to the prepayment date, have been deposited with the Trustee, interest with respect to the 2003 Certificates or portions thereof will cease to accrue and the Owners of such 2003 Certificates will cease to be entitled to any benefit or security under the Indenture and will have no rights in respect of such 2003 Certificates or portions thereof so called for prepayment except to receive payment of the prepayment price and accrued interest to the prepayment date from such funds

held by the Trustee. Upon surrender and cancellation of any 2003 Certificates called for prepayment in part only, a new 2003 Certificate or Certificates of the same maturity and of authorized denominations, in an aggregate principal amount equal to the non-prepaid portion thereof, will be executed on behalf of the Corporation and authenticated and delivered by the Trustee.

If an Event of Default has occurred and is continuing under the Indenture, there will be no prepayment of less than all of the 2003 Certificates Outstanding.

SECURITY AND SOURCES OF PAYMENT FOR THE 2003 CERTIFICATES

The 2003 Certificates evidence proportionate undivided interests in the rights to receive certain Revenues pursuant to the Contract. Revenues are defined in the Contract to mean (a) all Net Proceeds not applied to the replacement of the Facilities, (b) all Installment Payments and (c) all other revenues derived from the Contract, excluding Additional Payments. Notwithstanding the foregoing, the Owner of each 2003 Certificate is not entitled to receive more than the amount of principal, premium, if any, and interest represented by such 2003 Certificate.

Installment Payments and Additional Payments

Under the Contract, the City is required to make the Installment Payments directly to the Trustee in amounts sufficient to provide for the payment of the principal (whether at maturity, by prepayment or otherwise) and interest with respect to the 2003 Certificates and any Additional Certificates hereafter executed and delivered under the Indenture as the same become due and payable.

The City is also obligated under the Contract to pay as Additional Payments to such persons as are entitled thereto the reasonable and customary expenses and fees of the Trustee and the Corporation, any expenses of the Corporation in defending an action or proceeding in connection with the Contract or the Indenture and any taxes or any other expenses, including, but not limited to, licenses, permits, state and local income, sales and use or ownership taxes or property taxes which the Corporation is expressly required to pay as a result of the Contract (together with interest that may accrue thereon in the event that the City fails to pay the same).

Budget and Appropriation

Pursuant to the Contract, the City shall (a) cause its budget officer (as statutorily defined) to include the Installment Payments and the reasonably estimated Additional Payments coming due in each fiscal year in the corresponding annual budget request and (b) require that the deletion of such funds from the City's final budget be made only pursuant to an express resolution of the City Council which explains the reason for such action. Nothing contained in this paragraph, however, obligates the City to appropriate the moneys so budgeted.

In connection with the Installment Payments and the Additional Payments, the appropriation of funds therefor is within the sole discretion of the City Council.

Deed of Trust

Simultaneously with the delivery of the 2003 Certificates, the City will execute and deliver to the Deed of Trust trustee named therein for the benefit of the Corporation the Deed of Trust, granting a first lien of record on the Premises, subject only to certain Permitted Encumbrances as described in the Deed of Trust. The Permitted Encumbrances will include a long-term lease agreement (the "Developer Lease") entered into between the City and American Campus, LLC (the "Developer") which provides for the leasing to the Developer of 49% of the parking spaces in the Project (excluding the TTA Spaces described below). Additionally, the City intends to enter into a long-term parking spaces agreement (the "TTA Agreement") with the Research Triangle Research Public Transportation Authority, doing business as Triangle Transit Authority ("TTA"), which will provide TTA with the use of approximately 150 parking spaces in the Project (the "TTA Spaces"). The Developer Lease and TTA Agreement will be subordinate to the lien of the Deed of Trust. However, the Trustee, as beneficiary under the Deed of Trust, will be required to enter into non-disturbance and attornment agreements with the Developer and TTA which will provide that (a) the Developer's rights under the Developer Lease and TTA's rights under the TTA Agreement will not be disturbed as a result of any foreclosure on the Premises pursuant to the Deed of Trust and (b) the Developer and TTA will be obligated to attorn and makes payments due under the Developer Lease and the TTA Agreement to any purchaser of the Premises at a foreclosure sale. See "THE PROJECT" herein for further information regarding the Developer Lease and the TTA Agreement. Additionally, the Premises will be subject to certain restrictive covenants that limit the use of the Premises to use as a parking structure and other uses incidental thereto and limited retail use and that further restrict the use of certain parking spaces to monthly parking during certain times.

The Deed of Trust authorizes future obligations evidenced by Additional Certificates executed and delivered under the Indenture to be secured by the Deed of Trust, provided that the total amount of present and future obligations secured thereby at any one time does not exceed \$100,000,000 and such future obligations are incurred not later than 15 years from the date of the Deed of Trust. The 2003 Certificates will be secured by the Deed of Trust on a parity with any Additional Certificates hereafter executed and delivered pursuant to the Indenture.

The Deed of Trust will be recorded in the office of the Register of Deeds of the County of Durham, North Carolina, and the liens created thereby will be insured by a title insurance policy issued by Chicago Title Insurance Company.

So long as there is no event of default under the Deed of Trust and with the consent of the Corporation, the Trustee may release the Premises or any part thereof from the lien and security interest of the Deed of Trust when and if the following requirements have been fulfilled:

(1) in connection with any release of the Premises, or any part thereof, there is filed with the Trustee a certified copy of the resolution of the City Council for the City stating the purpose for which the City desires such release of the Premises, giving an adequate legal description of the part of the Premises to be released, requesting such release and providing for payment by the City of all expenses in connection with such release;

(2) in connection with the release of any part of the Premises constituting less than the entire Premises, the appraised value of the Premises remaining after the proposed release (as such appraised value is evidenced by or derived from an appraisal of the remaining Premises prepared by an MAI-approved appraisal firm acceptable to the Trustee) is not less than 110% of the aggregate principal components of the Installment Payments relating to the Certificates then Outstanding under the Indenture;

(3) in connection with the release of any part of the Premises constituting less than the entire Premises, such release shall not prohibit the City's ingress, egress and regress to and from the remainder of the Premises not being released, or materially interfere with the use of the remainder of the Premises not being released; and

(4) in connection with the release of all property constituting the entire Premises, there is paid to the Trustee an amount sufficient to provide for the payment in full all of the Certificates then Outstanding under the Indenture.

Indenture

Pursuant to the Indenture, the Corporation will assign to the Trustee for the benefit of the Owners of the 2003 Certificates and any Additional Certificates executed and delivered under the Indenture (a) all rights, title and interest of the Corporation in the Contract (except for certain indemnification rights, notice rights and the right to Additional Payments payable to the Corporation), including its rights to receive the Installment Payments thereunder, (b) all rights, title and interest of the Corporation in the Deed of Trust and the Premises and (c) all moneys and securities from time to time held by the Trustee under the Indenture in any fund or account and any and all other personal property of every name and nature from time to time by delivery or by writing of any kind specially pledged or hypothecated, as and for additional security under the Indenture.

Enforceability

NEITHER THE CONTRACT NOR THE 2003 CERTIFICATES CONSTITUTES A PLEDGE OF THE FAITH AND CREDIT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE CITY IN ANY ACTION FOR BREACH OF THE CONTRACT OR THE DEED OF TRUST, AND THE TAXING POWER OF THE CITY IS NOT PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONEYS DUE THE OWNERS OF THE 2003 CERTIFICATES PURSUANT TO THE CONTRACT OR THE DEED OF TRUST.

THE REMEDIES AFFORDED TO THE TRUSTEE AND THE OWNERS OF THE 2003 CERTIFICATES UPON A DEFAULT BY THE CITY UNDER THE CONTRACT ARE LIMITED TO THOSE SPECIFIED IN THE CONTRACT AND THE INDENTURE, INCLUDING EXERCISING THE RIGHTS OF THE BENEFICIARY UNDER THE DEED OF TRUST AND THE RIGHTS OF THE TRUSTEE IN THE FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE.

The Indenture, the Contract and the Deed of Trust are subject to bankruptcy, insolvency, fraudulent conveyance and other related laws affecting the enforcement of creditors' rights generally and, to the extent that certain remedies under such instruments require, or may require, enforcement by a court, to such principles of equity as the court having jurisdiction may impose.

See "The Contract – Remedies on Default" in Appendix B for a more complete description of the rights and powers of the Trustee upon the occurrence of an event of default under the Contract.

Additional Certificates

Under the conditions described in the Indenture and so long as no Event of Default has occurred under the Indenture, the Corporation may execute and deliver Additional Certificates under the Indenture without the consent of the Owners of the 2003 Certificates or any Additional Certificates then Outstanding under the Indenture to provide funds to pay (a) the cost of completing the construction,

acquisition, installation and equipping of the Project, in excess of the amount therefore in the Construction Fund pursuant to the Indenture; (b) the cost of expanding the Project or acquiring, constructing, installing, rehabilitating and equipping other facilities for utilization by the City for public purposes; (c) the cost of refunding of all or any portion of the 2003 Certificates or any other Additional Certificates then Outstanding under the Indenture; and (d) the cost of the execution, delivery and sale of such Additional Certificates, and such other costs reasonably related to the refunding, as agreed on by the Corporation and the Trustee. **The property financed with the proceeds of any Additional Certificates executed and delivered under the Indenture is not required to be subject to the lien of the Deed of Trust or otherwise pledged as security for the performance by the City of its obligations under the Contract.**

The 2003 Certificates are payable on a parity with any Additional Certificates hereafter executed and delivered pursuant to the Indenture. The Installment Payments and any Installment Payments with respect to Additional Certificates executed and delivered under the Indenture are deposited as received by the Trustee in the Certificate Fund held by the Trustee. Moneys in the Certificate Fund are withdrawn and used to pay the principal and interest with respect to the 2003 Certificates and any Additional Certificates executed and delivered under the Indenture as the same become due and payable. To the extent the moneys in the Certificate Fund are insufficient to pay all of the principal and interest with respect to the 2003 Certificates or any Additional Certificates executed and delivered under the Indenture which are due and payable on such date, such moneys will be used to pay such principal and interest with respect to the 2003 Certificates and any such Additional Certificates entitled to receive principal or interest on such date in the manner provided in the Indenture. See "The Indenture - Application of Moneys" in Appendix B.

THE CORPORATION

The Corporation was incorporated as a nonprofit corporation under the laws of the State of North Carolina on July 14, 1986. Its general purpose is to promote and encourage the revitalization of Durham, North Carolina, through the acquisition, construction, operation or lease of real estate and improvements, facilities and equipment for the use and benefit of the general public.

The Board of Directors of the Corporation consists of three (3) individuals, who serve for one year terms or until their successors are duly elected and qualified. The following persons currently serve as officers and directors of the Corporation:

President, Chair of the Board and Director:	William J. Kennedy, III
Vice President and Director:	MaryAnn E. Black
Secretary and Treasurer and Director:	Frank A. DePasquale

The Corporation's officers and directors serve without compensation, except that John L. Crill, who serves as Assistant Secretary to the Corporation, also serves as general counsel to the Corporation and is compensated for his services in that capacity. The Corporation has no employees.

THE PROJECT

The Project consists of the acquisition, construction and equipping of a multi-level parking facility consisting of approximately 1,311 spaces. The Project will be located in the downtown area of the City adjacent to the now vacant American Tobacco complex. The Project is part of a larger downtown redevelopment and revitalization effort being undertaken on the American Tobacco complex

site predominantly by the Developer. Currently, development of approximately 472,000 square feet of commercial, office and retail space at an estimated cost of \$64 million of private funds is contractually committed by the Developer to be completed. If fully completed, the entire project is currently anticipated to include approximately 915,000 square feet of office, retail and hotel space to be constructed in four phases over a seven year period. The entire project is expected to be financed by approximately \$145 million of private funds and approximately \$43 million of funds provided by the City and Durham County, including the proceeds of the 2003 Certificates, for public parking facilities, including the Project.

The total cost of the Project is approximately \$15.3 million. The Project is expected to be completed by August 2004.

As described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2003 CERTIFICATES – Deed of Trust” above, the City has entered into the Developer Lease with the Developer. The Developer Lease provides for an initial ten-year term with automatic renewals for two additional five year terms unless an event of default has occurred under the Developer Lease and has not been cured or the Developer provides the City with requisite notice that it desires not to renew the Developer Lease. The Developer Lease provides for the lease to the Developer of 49% of the total available parking spaces (excluding the TTA Spaces), as well as non-exclusive use of other common areas necessary for use of the leased parking spaces. The Developer is obligated to make monthly rental payments to the City equal to \$45 per leased parking space (subject to certain fair market rental adjustments) in addition to certain other payments. The City, as landlord, has agreed to perform certain obligations under the Developer Lease, including, but not limited to, providing for the operation and maintenance of the Project and certain security services.

The City also intends to enter into the TTA Agreement with TTA for an expected term of 40 years to provide for the use of approximately 150 parking spaces located in the Project by TTA. Pursuant to the TTA Agreement, the City intends to receive a one-time upfront payment intended to cover the approximate cost of construction of the TTA Spaces, which payment would be made within thirty (30) days following completion of the Project. TTA would also pay to the City a monthly management fee. Pursuant to the TTA Agreement, the City’s obligations are expected to include, but not be limited to, providing for the operation and maintenance of the Project and certain security services. The TTA Agreement is currently being negotiated by the City and TTA and is not expected to be executed prior to delivery of the 2003 Certificates. If for any reason the TTA Agreement is not executed, the City expects to eliminate the TTA Spaces from the scope of the Project.

ESTIMATED SOURCES AND USES OF FUNDS

The following table presents information as to the estimated sources and uses of funds relating to the Project and the 2003 Certificates:

Sources

Par Amount of 2003 Certificates	\$14,000,000
Net Original Issue Discount	<u>(75,486)</u>
Total	<u>\$13,924,514</u>

Uses

Project Costs	\$13,606,426
Financing Costs ¹	<u>318,088</u>
Total	<u>\$13,924,514</u>

¹ Includes underwriters' discount, legal fees, printing fees, rating fees, fees of the Trustee and Financial Advisor and miscellaneous fees and expenses.

ANNUAL INSTALLMENT PAYMENT REQUIREMENTS

The following table sets forth for each twelve-month period ending June 1, the amount of principal (whether at maturity or pursuant to mandatory sinking fund prepayment) and interest required to be paid with respect to the 2003 Certificates:

Twelve-Month Period Ending <u>June 1,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$540,000	\$562,093	\$1,102,093
2005	705,000	730,416	1,435,416
2006	705,000	713,919	1,418,919
2007	710,000	692,064	1,402,064
2008	710,000	665,723	1,375,723
2009	705,000	635,903	1,340,903
2010	710,000	604,883	1,314,883
2011	710,000	570,093	1,280,093
2012	710,000	533,173	1,243,173
2013	710,000	493,484	1,203,484
2014	710,000	453,440	1,163,440
2015	710,000	408,000	1,118,000
2016	710,000	362,560	1,072,560
2017	710,000	317,120	1,027,120
2018	710,000	271,680	981,680
2019	710,000	226,240	936,240
2020	710,000	180,800	890,800
2021	705,000	135,360	840,360
2022	705,000	90,240	795,240
2023	<u>705,000</u>	<u>45,120</u>	<u>750,120</u>
Total ¹	<u>\$14,000,000</u>	<u>\$8,692,311</u>	<u>\$22,692,311</u>

¹ Totals may not foot due to rounding.

AVAILABLE SOURCES FOR PAYMENT OF INSTALLMENT PAYMENTS

The City may pay its Installment Payments from any source of funds legally available to it in each year and appropriated therefor during the term of the Contract.

The City's general fund revenues for the fiscal year ended June 30, 2002 exceeded \$132.5 million. General fund revenues are derived from various sources, including property taxes (which account for approximately 76% of the general fund revenues), sales taxes, fines and forfeitures, as well as intergovernmental revenues. For the fiscal years ending June 30, 2003 and ended June 30, 2002, the City imposed a property tax of \$0.545 per \$100 and \$0.545 per \$100, respectively, of assessed value. For the fiscal year ending June 30, 2004, the City imposed a property tax of \$0.545 per \$100 of assessed value. A rate of \$.01 per \$100 of assessed value presently generates approximately \$1.39 million. The General Statutes of North Carolina permit counties to impose property taxes of up to \$1.50 per \$100 of assessed

value for certain purposes without the requirement of a voter referendum. See Appendix A hereto for a description of the uses of the City's general fund revenues for the fiscal year ended June 30, 2002.

CERTAIN RISKS OF 2003 CERTIFICATE OWNERS

Insufficiency of Installment Payments

If Installment Payments made by the City are insufficient to pay the principal and interest with respect to the 2003 Certificates and any Additional Certificates as the same become due or if another event of default occurs under the Contract, the Trustee may accelerate payment of the 2003 Certificates and any Additional Certificates and all unpaid principal amounts due by the City under the Contract, direct the Deed of Trust Trustee to foreclose on the Premises under the Deed of Trust, take possession of the Premises and attempt to dispose of the Premises. See “The Contract – Remedies on Default” in Appendix B. There can be no assurance that the moneys available in the funds and accounts held by the Trustee and the proceeds of any such disposition of the Premises will be sufficient to provide for the payment of the principal and interest with respect to the 2003 Certificates. Section 160A-20(f) of the General Statutes of North Carolina provides that no deficiency judgment may be rendered against the City for any amounts that may be owed by the City under the Contract, and the taxing power of the City is not and may not be pledged directly or indirectly or contingently to secure any moneys owing by the City under the Contract. The remedies afforded to the Trustee and the Owners of the 2003 Certificates upon an Event of Default by the City under the Contract are limited to those of a secured party under the laws of the State of North Carolina, including foreclosing on the Premises pursuant to the Deed of Trust.

Limited Value of Premises

The restrictive covenants and encumbrances on the Project as described under “SECURITY AND SOURCES OF PAYMENT FOR THE 2003 CERTIFICATES – Deed of Trust” herein limit the use of the Premises and could affect the amount of sales proceeds in the event of a foreclosure and sale of the Premises pursuant to the Deed of Trust. No appraisal of the Premises has been performed in connection with the delivery of the 2003 Certificates.

Uninsured Casualty

If all or any part of the Premises is partially or totally damaged or destroyed by any casualty or taken by any governmental authority, the City has the option under the Contract to apply any Net Proceeds from insurance or condemnation to repair, restore or rebuild the Premises or to apply the related Net Proceeds to the prepayment of the 2003 Certificates. If the Net Proceeds are not sufficient to repair, restore or rebuild the Premises to its condition prior to such damage, destruction or taking or to pay the 2003 Certificates in full or if the City elects only to make partial efforts to repair, restore or rebuild the Premises or to make a partial prepayment of the 2003 Certificates, the only other source of payment of the 2003 Certificates will be proceeds of the disposition of the Premises, the amount of which may be reduced by the condition of the Premises. The Contract requires that certain insurance be maintained with respect to the Premises. Such insurance may not, however, cover all perils to which the Premises is subject.

Outstanding General Obligation Debt of the City

The City has issued general obligation bonds and may issue general obligation bonds and notes in the future. The City will pledge its faith and credit and taxing power to the payment of its general obligation bonds and notes to be issued. See “THE CITY - Debt Information” herein. Funds which may

otherwise be available to pay Installment Payments or Additional Payments or to make other payments to be made by the City under the Contract may be subject to such faith and credit pledge by the City and therefore may be required to be applied to the payment of its general obligation indebtedness.

Environmental Risks

The City must under the Deed of Trust undertake whatever environmental remediation may be required by law. For example, if any portion of the Premises became a “Superfund site” under the Comprehensive Environmental Response, Compensation and Liability Act, the federal government may require clean-up, and the City may be required to pay all or a part of such clean-up costs. If the City were unable to continue operation of any part of the Project because of environmental contamination of the Premises and defaulted under the Contract, the value of the Premises at foreclosure could be reduced by the cost of any clean-up. Environmental assessments have been performed on the Premises. While some metals were detected at concentrations slightly exceeding North Carolina groundwater standards, no additional assessment was recommended.

THE CITY

General Description

The City is located in, and is the county seat of, Durham County, North Carolina (the “County”). The City is located in the north central portion of the State on the Piedmont Plateau and is approximately equidistant from the cities of Philadelphia, Pennsylvania and Atlanta, Georgia. The area’s topography is characterized by rolling hills and long, low ridges. The City, which was incorporated in 1869, presently covers an area of 98.03 square miles.

The City is empowered by statute to levy an annual ad valorem tax on the appraised value of all taxable real and tangible personal property within its corporate limits. The County is the only other unit levying such taxes within the corporate limits of the City. In addition, the Special Airport District of Durham and Wake Counties is empowered to levy such taxes within the City, although it has not yet done so.

The City is empowered by statute to extend its corporate limits by annexation. The City conducts an on-going planning process through which it implements the expansion of its corporate limits in order to keep pace with the growth and development of the community.

Demographic Characteristics

The United States Department of Commerce, Bureau of the Census, has recorded the population of the City to be as follows:

<u>1980</u>	<u>1990</u>	<u>2000</u>
101,149	136,612	187,035

The City-County Planning Department has estimated the population to be as follows:

<u>2001</u>	<u>2002</u>
192,681	194,405

Per capita income data for the County, the State and the United States are presented in the following table:

<u>Year</u>	<u>County¹</u>	<u>State</u>	<u>United States</u>
1996	\$24,877	\$22,350	\$24,164
1997	25,941	23,468	25,288
1998	27,730	24,661	27,321
1999	28,695	25,302	28,546
2000	29,739	26,882	30,037

¹ Separate data for the City are not available.

Source: United States Department of Commerce, Bureau of Economic Analysis.

Commercial, Industrial and Institutional Profile

The City's economic profile reflects a mixture of manufacturing, research, health care services and other service industries. The manufacture of electronic equipment, telecommunications equipment and medical supplies, together with the growth in the service sector, provides a diversified economic base. Also of economic importance are the health care institutions located in the City; four hospitals and their related clinics provide over 2,000 patient beds. Nearly 30% of the City's work force is engaged in health-related occupations.

Three institutions of higher education, two public and one private, are located within the City. One of the three, Duke University, a nationally recognized university and health care provider, is the largest single employer in the City. Duke University is the major beneficiary of the Duke Endowment and operates, through a controlled affiliate, Duke University Health System, Inc., one of the leading medical centers in the United States.

The Research Triangle Park (the "Park"), organized in 1959, is administered and marketed by the Research Triangle Foundation. The Park contains 6,900 acres of land set aside for research and research-oriented manufacturing. Since its founding, the Park and its surrounding areas have developed steadily. Recent annexations have continued to extend the City's corporate limits to the west, which is in the east side of the Park. The Park includes approximately 137 businesses employing around 42,000 people and having a combined annual payroll of more than \$2.7 billion.

The table below lists, by corporate name, product or service and approximate number of employees the major manufacturing and nonmanufacturing employers, in and within approximately one mile of the City.

<u>Company</u>	<u>Product or Service</u>	<u>Approximate Number of Employees</u>
<i>Manufacturing:</i>		
International Business Machines	Hardware and software for networking and personal computers	14,000
NORTEL Networks, Inc.	Digital telephone switching systems	3,100
Cree, Inc.	Semiconductor materials	952
Reichhold Chemicals, Inc.	Polymer Systems	600
Litespec Optical Fiber	Optical fibers	600
BioMerieux	Biological Diagnostics	500
Sumitomo Electric Lightwave	Fiber Optic Cable	450
<i>Non-Manufacturing</i>		
Duke University and Duke University Health System, Inc. ^{1,2}	Education, medical care and research	19,684
GlaxoSmithKline, Inc. ¹	Pharmaceuticals	4,500
Durham Public Schools	Public education	4,500
Blue Cross—Blue Shield of North Carolina	Health insurance	2,500
Durham City Government	Municipal government	2,117
Durham County Government	County government	1,870
Veterans Administration Medical Center	Healthcare	1,600
Research Triangle Institute	Contractual research	1,550
United States Environmental Protection Agency	Develop national standards for air quality	1,400

¹ Corporate headquarters.

² Duke University Hospital and Durham Regional Hospital are operated by Duke University Health System, Inc., a controlled affiliate of Duke University.

Source: Greater Durham Chamber of Commerce (June 2002).

The following table reflects total retail sales in the City during the five fiscal years ended June 30, 1998-2002 and for the ten-month period ended April 30, 2003:

<u>Fiscal Year Ended June 30</u>	<u>Total Retail Sales</u>	<u>Increase over Previous Year</u>
1998	\$2,629,862,751	9.1%
1999	2,809,601,571	6.8
2000	2,951,042,786	5.0
2001	3,054,974,342	3.5
2002	3,382,496,555	10.7
2003 (10 mos.)	3,245,803,185 ¹	—

¹ The amount for the ten-month period ended April 30, 2002 was \$2,710,848,603.

Source: North Carolina Department of Revenue, Sales and Use Tax Division.

Construction activity in the City is indicated by the following table showing the value of construction and number of building permits as indicated by City building permit records:

<u>Fiscal Year Ended June 30</u>	<u>Commercial</u>		<u>Residential</u>		<u>Total</u>
	<u>Number of Permits</u>	<u>Value</u>	<u>Number of Permits</u>	<u>Value</u>	
1998	853	\$352,177,118	2,222	\$232,476,067	\$584,653,185
1999	764	228,942,121	2,368	298,987,808	527,929,929
2000	779	196,311,861	2,094	283,371,406	479,683,267
2001	884	436,453,045	2,457	276,361,121	712,814,166
2002	879	243,107,389	2,550	318,120,298	561,227,687
2003 (11mos.)	744	342,273,716	2,353	308,129,539	650,403,255

Source: City Inspection Department.

Employment

The North Carolina Employment Security Commission has estimated the percentage of unemployment in the County to be as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>		<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
January	2.1%	2.3%	2.5%	5.3%	5.4%	July	2.1%	2.2%	3.6%	6.0%	N/A
February	2.0	2.5	2.9	5.3	5.1	August	2.1	2.0	3.7	5.8	
March	1.9	2.2	2.7	5.2	5.1	September	1.8	2.0	3.7	5.4	
April	1.7	1.7	2.8	5.4	5.2	October	2.1	2.1	4.3	5.6	
May	1.9	2.1	2.9	5.8	5.1	November	2.1	2.2	4.5	5.5	
June	2.1	2.4	3.4	6.2	5.6	December	1.9	2.0	4.3	5.2	

The North Carolina Employment Security Commission has estimated the percentage of unemployment in the County, the State and the United States to be as follows:

	<u>County</u>	<u>State</u>	<u>United States</u>
June 1998	2.4%	3.4%	4.5%
June 1999	2.1	3.0	4.3
June 2000	2.5	3.6	4.0
June 2001	3.8	5.5	4.6
June 2002	6.2	7.0	6.0

Government and Major Services

GOVERNMENT STRUCTURE

The City has a council-manager form of government. The City Council, the governing body of the City, is comprised of a Mayor and six council members. The Mayor and three council members are elected at large. Three council members must fulfill ward residency requirements. Council members serve four-year terms. However, as part of the transition resulting from the reduction in the size of the City Council from 12 members and a mayor to six members and a mayor beginning in 2001, the three members elected at large in 2001 serve two-year terms. The Mayor and three members are elected every two years. All municipal elections are non-partisan.

The City Council appoints the members of various boards and commissions, the City Manager, the City Attorney, the City Clerk and the Collector of Revenue. The Mayor presides over City Council meetings and has full voting privileges.

The City Manager is the chief administrative officer of the City. The individual is a professional administrator who serves at the pleasure of the City Council.

EDUCATION

The County has a consolidated school system which is governed by a school board consisting of seven members who are elected to four-year terms.

The City has no financial responsibility for any part of the school system. The budget for the school system is submitted to the Board of Commissioners for the County for approval, with the revenue coming from the federal, State and County governments.

The following table shows the number of schools in the school system by grade level and average daily membership:

<u>School Year</u>	<u>Elementary Grades K-5</u>		<u>Junior High Grades 6-8</u>		<u>Secondary Grades 9-12</u>	
	<u>Number</u>	<u>ADM¹</u>	<u>Number</u>	<u>ADM¹</u>	<u>Number</u>	<u>ADM¹</u>
1998-99	27	15,224	9	6,898	6	7,522
1999-00	27	14,692	9	6,687	6	7,585
2000-01	27	14,927	9	7,555	5	7,034
2001-02	27	14,861	9	6,222	5	7,147
2002-03	27	14,890	9	7,154	5	8,567

¹ Average daily membership (“ADM”) (determined by actual records at the schools) is computed by the North Carolina Department of Public Education on a uniform basis for all public school units in the State. The ADM computations are used as a basis for teacher allotments and for distribution of local funds. Number of schools reflects three combined schools serving grades 6-12; and one combined school serving grades K-12.

Source: Durham Public Schools, Office of Public Affairs.

The North Carolina School of Science and Mathematics, a school for students gifted and talented in science and mathematics, is located in the City. The school was the first public, residential, coeducational senior high school in the nation. Full-time enrollment at the school is approximately 560 students.

The three institutions of higher education located in the City are Duke University, a private university offering advanced degrees; North Carolina Central University, a part of the University of North Carolina system; and Durham Technical Community College, a part of the State system of community colleges and technical institutes. Full-time enrollments at such institutions are as follows:

Duke University	12,449
North Carolina Central University	5,664
Durham Technical Community College	5,242

Duke University, a nationally recognized university and health care provider, is the largest single employer in the City. It is the major beneficiary of the Duke Endowment and operates, through a controlled affiliate, Duke University Health System, Inc., one of the leading medical centers in the United States. North Carolina Central University ranks among the top 20 employers in the City.

The University of North Carolina at Chapel Hill is located approximately 12 miles from the central business district of the City, and North Carolina State University in Raleigh is located approximately 23 miles from central business district of the City. These neighboring universities and those within the City provide the community with numerous cultural events and collegiate sports activities.

TRANSPORTATION

There are currently 237.61 linear miles of State-system streets within the corporate limits of the City. The City maintains these streets and is reimbursed for all costs by the State. Expansion and betterment of the State-system streets and of federal highways within the corporate limits of the City are largely the responsibility of the State. The City's contribution to such projects is a portion of right-of-way acquisition costs and the occasional paving of State-system streets.

Major expansions, maintenance and betterments of the local street system are solely the responsibility of the City. Such projects are financed with long-term bonds and current revenues. There are approximately 629.94 linear miles of local streets maintained by the City.

The City is served by Interstate Highways 40 and 85, U.S. Highways 15, 70 and 501 and North Carolina Highways 54, 55, 98 and 751. The City is also served by the Durham Freeway, which connects the City to the Park to the south and connects with Interstate Highway 85 to the west.

The City, jointly with the County, the City of Raleigh, and Wake County, owns Raleigh-Durham International Airport ("RDU"), which is operated by the Raleigh-Durham Airport Authority (the "Authority"). RDU is served by 9 major airlines: American, Northwest, Delta, America West, AirTran, Continental, US Airways, Air Canada and Southwest. Additional commercial and commuter air service is provided by Atlantic Coast, Atlantic Southwest, Comair, Continental Express, American Eagle, Delta Connection, Skyway, US Airways Express and United Express. Approximately 8,363,000 people enplaned and deplaned aircraft at RDU in calendar year 2002. This represented an 11.5% decrease from calendar year 2001. The decrease in traffic is attributed in significant part to the restructuring of Midway Airlines which resulted in the cancellation of over 130 flights.

For calendar year 2002, over 55,220 tons of cargo were enplaned from RDU, a 16% decrease from 2001. Cargo off loaded at RDU totaled over 63,009 tons.

The Special Airport District of Durham and Wake Counties, comprised of the County and Wake County (the "District"), has issued \$50,000,000 General Obligation Aeronautical Facilities Bonds and \$40,320,000 Refunding Bonds, of which \$3,745,000 principal amount is currently outstanding. Under a Financing Agreement between the Authority and the District (the "Agreement"), the Authority has agreed to endeavor to charge and collect reasonable and adequate fees, charges and rents for the use of RDU in order to provide revenues for the payment of its expenses of operation and maintenance, certain outstanding obligations of the Authority and its obligations to the District under the Agreement. Although the District anticipates paying debt service on its bonds from payments made by the Authority pursuant to the Agreement, such refunding bonds are general obligations of the District, and the District is authorized to cause taxes to be levied and collected upon all taxable property within the District sufficient to meet the obligations of the District.

Over the past several years, the Authority has issued several series of revenue bonds and bond anticipation notes to finance the construction of various projects, including an approximately 6,100-space seven-level parking garage and related facilities and various terminal improvements. In May 2002, the Authority also entered into an agreement with American Airlines to purchase American Airlines' interest in its Terminal C facility, and revenue bonds were issued by the Authority to finance such acquisition.

The Authority is also considering an extensive redevelopment plan for its Terminal A facility that would ultimately expand Terminal A from 23 gates to as many as 40 gates and add almost 1,000,000 square feet of space to Terminal A. Due to the Authority gaining control of Terminal C in June 2002, the Authority can more effectively and efficiently expand Terminal C. Therefore, the redevelopment of Terminal A will be deferred until some point after the redevelopment and expansion of Terminal C. The specific timing of this Terminal A redevelopment will be driven by capacity issues including projected enplanement demand.

The City is served by two railroads: CSX Transportation and Norfolk Southern Corporation. Four bus lines and approximately 20 trucking companies offer connections to major cities. The City is also involved with TTA, which that provides bus service to the Raleigh-Durham-Chapel Hill area and engages in regional transportation planning.

TTA and the Triangle region's Metropolitan Planning Organizations have adopted a Regional Transit Plan. The plan includes regional rail service and expanded bus service, shuttles, park and ride facilities, and expanded pedestrian and bicycle access to transit. The plan is divided into several phases. The first phase involves the development of a regional rail system. Phase 2 will develop connections to RDU and the Town of Chapel Hill, North Carolina. This is also included in the Durham-Chapel Hill-Carrboro Metropolitan Planning Organizations 2025 Long Range Transportation Plan.

The regional rail service, planned to be in operation by 2007, will use self-propelled, bi-directional, diesel rail cars to connect Durham, Research Triangle Park, Cary, Raleigh and North Raleigh. Real estate acquisition for Phase 1 is in progress, and design and station development is underway. Access to the Regional Rail service will be available to riders through 16 stations that are planned along the route, four of which will be located within the corporate limits of the City. The stations will be accessible to pedestrians, bicycles and wheelchairs and many will have park-and-ride lots. Other elements of the plan include enhancing and expanding regional bus service, adding express service to existing routes and new service in the region's many smaller communities. This service is expected to carry about 28,000 riders daily by the year 2025.

The estimated cost of construction is \$724 million funded by federal, State and local sources. The Federal Transit Administration has issued a Record of Decision approving the project. A full funding agreement for the project has been executed by both State and federal governments. The North Carolina General Assembly has approved the use of vehicle registration and car rental taxes for the local funding match.

HEALTH CARE FACILITIES

Four hospitals are located in the City. These hospitals collectively provide a broad range of health services.

Duke University Hospital ("DUH") is an 1,124-bed tertiary care facility that, together with the Duke University School of Medicine and the Duke University Graduate School of Nursing, comprises the Duke University Medical Center. DUH includes a number of special clinical facilities, such as the Duke Comprehensive Cancer Center, the Duke Eye Center and Duke Children's Hospital. During the fiscal

year ended June 30, 2002, DUH had approximately 37,000 patient admissions and over one million outpatient visits. DUH is operated by Duke University Health System, Inc. (“DUHS”), a non-profit controlled affiliate of the University, under a long-term lease from the University. DUHS also operates the 391-bed Durham Regional Hospital located in the City, as well as the 218-bed Raleigh Community Hospital located in Raleigh, 22 physician practices in the surrounding eight counties, Duke Community Infusion Services, Duke & St. Joseph Home Care and Triangle Hospice.

The other two hospitals located in the City include Veterans Administration Medical Center, a 502-bed general medical and surgical hospital, and North Carolina Specialty Hospital, a private surgical hospital.

The City has no financial obligations with respect to any of these hospitals.

Research Triangle Park is the site of a number of healthcare-related enterprises, including research and development carried on by Becton Dickinson and Company, National Institute Environmental Health System, U.S. Environmental Protection Agency, National Toxicology Program, Becton Dickinson Eisai, Glaxo SmithKline, Inc., Incara Pharmaceuticals, Sphinx Pharmaceuticals and the National Center for Health Statistics Laboratory.

PUBLIC SERVICE ENTERPRISES

The City furnishes water and sanitary sewer services to residents of the City and adjacent areas.

In connection with the issuance of \$15,830,000 Water and Sewer Utility System Revenue Bonds, Series 1994 (the “Series 1994 Utility System Bonds”) in January 1995, the City created a water and sewer utility system (the “System”) consisting of its water system and sanitary sewer system. The service area of the System includes all of the City’s incorporated area and significant portions of the County and the Research Triangle Park, and the System serves approximately 69,900 connections. The City has contractual agreements with the Orange Water and Sewer Authority, the Orange-Alamance Water System, the Town of Morrisville and the Town of Hillsborough to provide water resources on an intermittent basis.

The City’s water supply and distribution facilities furnish approximately 32.5 million gallons per day (“MGD”) of water to its residential and non-residential customers. At present, there are two sources of raw water for the City, which together provide for a safe water yield of 37 MGD. Lake Michie, which is supplied by the Flat River, is a 4.0 billion gallon impoundment with a rated safe yield of 19 MGD. Little River Reservoir, which is supplied by the Little River, is a 4.9 billion gallon impoundment with a rated safe yield of 18 MGD. In 2002, the City received a 10 MGD allocation from Jordan Lake and Terry Quarry has been approved for use as a raw water source. Plans have been developed for developing additional water supply from the Flat River by the construction of a new reservoir above Lake Michie and for expanding Lake Michie.

Treated water is supplied to the System by two water treatment plants with a total rated capacity of 61 MGD. The Williams Water Treatment Plant has a rated capacity of 22 MGD and is currently being upgraded and renovated. The Brown Water Treatment Plant currently has a designated rated capacity of 39 MGD, and expansion plans have been developed to increase incrementally its capacity to 48 MGD within five years.

The water distribution facilities consist of approximately 900 miles of transmission and distribution lines, including pipe ranging in size from 2-inch to 42-inch diameters and elevated and ground storage facilities with a combined capacity of 19 million gallons.

The wastewater collected by the City's sanitary sewer facilities is treated at two wastewater treatment plants, the North Durham Water Reclamation Facility and the South Durham Water Reclamation Facility. Both plants have recently been upgraded and expanded and now have an aggregate permitted hydraulic capacity of 40 MGD. Some areas in the southeastern part of the City receive service from the Durham County Wastewater Treatment Plant, which has a capacity of 6 MGD.

The System operates under a rate structure designed to provide sufficient revenues for it to be self-supporting.

The Series 1994 Utility System Bonds mentioned above were issued pursuant to a bond order adopted by the City Council in December 1994 for the purpose of providing funds for paying approximately \$13,195,000 of the cost of capital improvements to the Water and Sewer Utility System which were estimated to cost \$89,148,974 over the ensuing seven years. The City issued additional revenue bonds in the amount of \$16,765,000 during the fiscal year ended June 30, 1998 and in the amount of \$22,000,000 during the fiscal year ended June 30, 2001 to fund a portion of the remaining cost of such capital improvements. The City also expects to issue additional general obligation bonds from time to time and use other available moneys of the City to fund the balance of the cost of such capital improvements. Under such bond order, the receipts of the System are to be applied, after paying certain operating and other current expenses, to pay debt service on such revenue bonds and certain existing indebtedness of the City and to certain other purposes before they are to be applied to pay debt service on such additional general obligation bonds and existing general obligation bonds and certain other indebtedness related to the System. In addition, under such bond order, the City has agreed to revise its rates, fees and charges for water and sanitary sewer service so that such receipts, after being applied to such other purposes, will be sufficient for paying debt service on its general obligation bonds relating to the System.

The City has entered into an installment purchase contract, dated September 15, 1992, with New Durham Corporation under which the City's obligation to make installment payments is secured by a deed of trust on one of the two water treatment plants constituting a part of the Water and Sewer Utility System. The City expects that, if it ever lost the treatment capacity of such plant because of a default by it under such installment purchase contract, the City could modify the other water treatment plant and take other steps within 30 days so that the demand requirements on the Water and Sewer Utility System would continue to be met. In November 1998, the City and New Durham Corporation entered into an amended installment purchase contract pursuant to which the City refinanced its obligation under the original contract in order to lower debt service.

The City also provides solid waste collection and disposal services. Until December 31, 1997, the City provided for the disposal of its solid waste stream in a landfill owned and operated by the City. Since January 1, 1998, the City has disposed of its solid waste through a transfer station operated on behalf of the City by Browning Ferris Incorporated. The refuse is hauled by a contractor from the City's transfer station to a regional landfill facility located east of Lawrenceville, Virginia.

Electric service is provided by Duke Energy, and natural gas service is provided by Public Service of North Carolina, Inc.

OTHER SERVICES

The City also provides police and fire protection, parks and recreation facilities and programs, cemeteries, planning and community development, and municipal bus system.

The City and the County jointly own and operate the Durham Civic Center (the “Civic Center”). The Civic Center complex includes a full service hotel featuring 187 guest rooms, two parlors, a concierge level and a business center. There are also more than 40,000 square feet of meeting space divided among 13 rooms and a 14,080 square foot Grand Ballroom. The Civic Center was constructed as part of a downtown development project, with public and private components, that included the renovation of the Carolina Theater and a City-owned building leased to the Durham Arts Council and the construction of public parking facilities, a hotel and a private office building.

The City also owns the Durham Bulls Athletic Park, a baseball stadium that is leased to the Durham Bulls, a Class AAA affiliate of the Tampa Bay Devil Rays, an American League baseball team.

Debt Information

LEGAL DEBT LIMIT

In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, the City had the statutory capacity to incur additional net debt in the approximate amount of \$955,480,000 as of June 30, 2003.

OUTSTANDING GENERAL OBLIGATION DEBT

<u>General Obligation Bonds</u>	Principal Outstanding as of			
	June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003
Water Bonds	\$ 7,820,690	\$ 7,308,895	\$ 6,318,074	\$ 2,661,748
Water Refunding Bonds	2,640,000	590,000	—	—
Sanitary Sewer Bonds	80,513,111	77,134,322	63,033,245	50,766,965
Refunding Bonds, Series 1992	26,585,000	23,045,000	19,450,000	—
Refunding Bonds, Series 1993	9,625,000	9,005,000	7,990,000	—
Refunding Bonds, Series 2003	—	—	—	45,490,000
Other Bonds	81,196,199	102,436,783	134,448,681	115,641,287
Total Bonds	<u>\$208,380,000²</u>	<u>\$219,520,000</u>	<u>\$231,240,000</u>	<u>\$214,560,000</u>

Latest Bonds Issued:

1999-00	\$15,185,000 Public Improvement Bonds, Series 2000A, 10.01 years average maturity, 5.4300% net interest cost.
2000-01	\$16,910,000 Public Improvement Bonds, Series 2000B, 11.41 years average maturity, 5.0278% net interest cost.
	\$8,000,000 Variable Rate General Obligation Housing Bonds, Series 2000.
2001-02	\$25,910,000 Public Improvement Bonds, Series 2002, 12.25 years average maturity, 4.5709% net interest cost.
2002-03	\$45,490,000 General Obligation Refunding Bonds, Series 2003, 4.39 years average maturity, 2.5048% true interest cost.

Note: The above table excludes refunded bonds.

Debt service on the outstanding water bonds and sanitary sewer bonds has been paid by the City from the net revenues of its water and sanitary sewer systems. The City expects that debt service on its outstanding general obligation water bonds and sanitary sewer bonds, as well as debt service on all Water and Sewer Utility System Revenue Bonds and certain other indebtedness of the City related to the System, will continue to be paid from the net revenues of the System.

Debt service on the outstanding general obligation bonds issued to finance solid waste improvements has been funded by the City from the revenues of its solid waste disposal and collection system.

GENERAL OBLIGATION DEBT RATIOS

<u>At July 1</u>	<u>Total GO Debt¹</u>	<u>Assessed Valuation</u>	<u>Total GO Debt to Assessed Valuation</u>	<u>Population</u>	<u>Total GO Debt Per Capita</u>
1998	\$188,585,000	\$8,628,565,938	2.19%	162,273 ¹	\$1,162.15
1999	206,100,000	9,425,955,372	2.19	177,650 ¹	1,160.15
2000	208,380,000	9,875,819,117	2.11	187,035 ²	1,114.12
2001	219,520,000	13,835,225,423	1.59	192,681 ³	1,139.29
2002	231,240,000	14,358,249,809	1.61	194,405 ³	1,189.48
2003	214,560,000	14,773,878,989	1.45	194,405 ⁴	1,103.68

¹ Estimate of North Carolina Office of State Planning.

² United States Department of Commerce, Bureau of the Census.

³ Estimate of the City-County Planning Department.

⁴ For purposes of this schedule, the 2002 population is being used.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS AND MATURITY SCHEDULE

Fiscal Year	UTILITY		NON-UTILITY		TOTAL	
	Existing Debt		Existing Debt		Existing Debt	
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
2003-04	\$8,861,213.36	\$15,584,399.21	\$6,258,786.64	\$12,013,342.45	\$15,120,000.00	\$27,597,741.66
2004-05	9,266,626.03	16,037,221.46	6,443,373.97	12,066,268.54	15,710,000.00	28,103,490.00
2005-06	9,264,357.76	15,539,665.04	6,405,642.24	11,603,314.96	15,670,000.00	27,142,980.00
2006-07	8,406,152.99	14,228,314.68	6,343,847.01	11,141,120.32	14,750,000.00	25,369,435.00
2007-08	9,177,678.89	14,587,661.45	6,387,321.11	10,741,903.55	15,565,000.00	25,329,565.00
2008-09	10,441,665.12	15,398,955.84	5,973,334.88	9,922,471.66	16,415,000.00	25,321,427.50
2009-10	9,982,867.30	14,210,794.26	5,537,132.70	9,131,198.24	15,520,000.00	23,341,992.50
2010-11	9,656,782.54	13,162,100.03	5,308,217.46	8,565,457.47	14,965,000.00	21,727,557.50
2011-12	9,788,399.85	12,571,474.54	5,321,600.15	8,250,032.96	15,110,000.00	20,821,507.50
2012-13	9,926,488.27	11,961,506.43	5,338,511.73	7,931,038.57	15,265,000.00	19,892,545.00
2013-14	6,969,245.69	8,231,409.35	5,540,754.31	7,790,220.65	12,510,000.00	16,021,630.00
2014-15	4,861,522.38	5,744,319.10	5,003,477.62	6,872,850.90	9,865,000.00	12,617,170.00
2015-16	3,966,148.50	4,609,020.88	4,593,851.50	6,118,109.12	8,560,000.00	10,727,130.00
2016-17	3,342,267.87	3,791,449.95	4,482,732.13	5,682,350.05	7,825,000.00	9,473,800.00
2017-18	2,546,153.38	2,834,631.48	4,388,846.62	5,269,793.52	6,935,000.00	8,104,425.00
2018-19	2,259,188.21	2,419,463.47	2,855,811.79	3,420,086.53	5,115,000.00	5,839,550.00
2019-20	456,298.05	502,840.45	3,043,701.95	3,469,659.55	3,500,000.00	3,972,500.00
2020-21	456,298.05	479,569.25	3,043,701.95	3,323,180.75	3,500,000.00	3,802,750.00
2021-22			2,660,000.00	2,793,000.00	2,660,000.00	2,793,000.00
	<u>\$119,629,354.24</u>	<u>\$171,894,796.87</u>	<u>\$94,930,645.76</u>	<u>\$146,105,399.79</u>	<u>\$214,560,000.00</u>	<u>\$318,000,196.66</u>

Note : The table above includes \$15,365,000 Public Improvement Bonds, Series 1993, \$5,155,000 Housing Bonds, Series 1996 and \$8,000,000 Housing Bonds, Series 2000 all issued on a variable interest rate basis initially in a weekly mode with a cap of 15% per annum. Interest on the aforementioned bonds has been assumed at the maximum rate of 15% per annum.

GENERAL OBLIGATION BONDS AUTHORIZED AND UNISSUED

<u>Purpose</u>	<u>Date Approved</u>	<u>Amount Authorized and Unissued</u>
Streets	11/05/96	\$11,168,000
Parks and Recreation	11/05/96	2,603,000
Housing	11/05/96	11,286,000
Public Transportation	11/05/96	1,715,000
Refunding	04/07/03	<u>5,510,000¹</u>
		<u>\$32,282,000</u>

¹ The City does not intend to issue the remaining authorized and unissued Refunding Bonds.

GENERAL OBLIGATION DEBT INFORMATION FOR OVERLAPPING UNITS AS OF JUNE 30, 2003

<u>Unit</u>	<u>2001 Population¹</u>	<u>Assessed Valuation</u>	<u>Tax Rate Per \$100</u>	<u>Debt Authorized and Unissued</u>		<u>Total GO Debt</u>		<u>Total GO Debt Per Capita</u>
				<u>Utility</u>	<u>Other</u>	<u>Utility</u>	<u>Other</u>	
Durham County	228,086	\$19,089,466,058	\$0.729	\$ —	\$6,250,000	\$ —	\$197,730,000 ²	\$866.91
Special Airport District of Durham and Wake Counties ³	851,160	73,234,585,753	—	—	—	—	3,745,000	4.40

¹ Estimate of North Carolina Office of State Planning.

² Excludes certain refunded bonds.

³ The District entered into certain financing agreements with the Authority for the purpose of loaning the proceeds of bonds of the District to the Authority to finance airport improvements. See “THE CITY - Transportation” herein.

OTHER LONG-TERM COMMITMENTS

The City has entered into certain short and long-term leases and installment purchase agreements for certain equipment, facilities and real property. The following sets forth the aggregate annual payments due from the City under such agreements:

<u>Fiscal Year Ending June 30</u>	<u>Computer Leases and Leases and Installment Purchase Contracts</u>
2004	\$ 5,319,595
2005-2009	19,903,811
2010-2014	11,969,598
2015-2019	1,858,699

In November 1998, the City entered into a 48-month agreement for recycling services with Tidewater Fiber Corp. Pursuant to this agreement, the City paid approximately \$2,236,340 in the fiscal year ended June 30, 2002. During the fiscal year ended June 30, 2003, the City entered into a one-year

extension of that contract and paid approximately \$2,232,850 for recycling services. The City Council has authorized a one-year extension of such agreement for the fiscal year ending June 30, 2004.

In November 1997, the City entered into a contract with Container Corporation of Carolina, Inc. for hauling and disposal services for the City's solid waste. The contract had an initial term of five years, with a clause for three five-year extensions. The estimated cost per year to the City under this contract using current tonnage amounts is \$4,850,000. The City has entered into the first five year extension under this contract.

In addition to the contracts described above, the City has entered into other contracts for management services. See Note 5 to the financial statements contained in Appendix A.

On October 6, 1993, the City became obligated pursuant to a contract with Durham Risk Management Corporation with respect to the payment of two series of certificates of participation to provide funds for capitalizing a risk reduction program for the benefit of the City. The \$4,000,000 principal amount remaining outstanding as of the date hereof are subject to mandatory sinking fund redemption in July 1 of the years as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2004	\$1,000,000	2006	\$1,000,000
2005	1,000,000	2007	1,000,000*

*Final Maturity

The City is obligated pursuant to a note executed on June 10, 1992 to evidence a loan from the State of \$15,000,000 at a rate of 3.70% per annum, to provide funds to pay a part of the cost of expanding and improving its North Durham Water Reclamation Facility. The City is required to pay such indebtedness on each May 1 and November 1 until May 1, 2015. Pursuant to the bond order authorizing the City's Water and Sewer Utility System Revenue Bonds, the City is to make such payments from the net receipts of the System prior to paying debt service on its general obligation bonds related to the System.

The City is also obligated pursuant to certain agreements with the County to pay the County one-half of the receipts collected by the City with respect to certain lines constituting a part of the System up to the cost of constructing such lines in exchange for the transfer of such lines to the City by the County. The City's obligations pursuant to such agreements bear interest at the rate of 5.54% per annum until their maturity dates in 2010 to 2013, inclusive. Pursuant to the bond order authorizing the City's Water and Sewer Utility System Revenue Bonds, the City is to make such payments from the net receipts of the System on a parity with paying debt service on its general obligation bonds related to the System.

In addition, the City is obligated pursuant to certain right-of-way and construction notes payable to the Department of Transportation of the State which were outstanding in the amount of \$734,476 as of June 30, 2002. Of such amount, \$675,227 was payable from the net receipts of the Water and Sewer Utility System on a parity with the City's general obligation bonds related to the Water and Sewer Utility System.

In addition to the development project of which the Project is a part, the City is engaged in negotiations concerning the following public-private partnership development projects:

Liggett & Meyers Property. This project is planned as the adaptive reuse and redevelopment of 800,000 square feet of historic buildings located on the west side of downtown. When completed the

project is planned to provide residential units and mixed commercial, office and research and development space. Financing for the project may include an investment in public parking.

Renaissance Tower. This project, located downtown adjacent to the Civic Center, is planned as a 180 unit condominium tower. Proposed financing for the project includes private investment of \$44,000,000 and \$2,000,000 in public parking improvements. The City proposes to enter into an installment financing agreement to finance parking improvements that may be constructed as part of this project.

Downtown Theater. This project is planned as a private-public partnership to build a 4,000 seat theater to be located downtown on a former bus maintenance facility site, adjacent to the American Tobacco Project. The City is currently seeking proposals from private developers to build, operate and partially finance the project. The public portion of the funding for this project will come from a one-cent increase in the Hotel-Motel Tax that went into effect in July 2002. Other sources of funding are also currently being explored.

DEBT OUTLOOK

The City has \$26,772,000 of authorized and unissued general obligation bonds. See “General Obligation Bonds Authorized and Unissued” herein. The remainder of the authorized and unissued bonds must be issued prior to November 2003 unless these authorizations are extended. The City intends to take the steps necessary to effect such extension. Any other capital financing needs will be evaluated on a continuing basis, and new bond authorizations to accommodate priority public improvements will be considered as needed.

Tax Information

GENERAL INFORMATION

	Fiscal Year Ended or Ending June 30				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Assessed Valuation:					
Assessment Ratio	100%	100%	100%	100%	100%
Real Property ¹	\$7,124,010,893	\$7,519,528,085	\$11,170,961,357	\$11,652,462,581	\$12,118,323,714
Personal Property	1,989,246,124	2,078,014,124	2,284,944,453	2,360,817,611	2,410,585,658
Public Service Companies ²	<u>312,698,355</u>	<u>278,276,908</u>	<u>379,319,613</u>	<u>344,969,617</u>	<u>244,969,617</u>
Total Assessed Valuation	\$9,425,955,372	\$9,875,819,117	\$13,835,225,423	\$14,358,249,809	\$14,773,878,989
Rate per \$100	.68	.69	.53	.545	.545
Levy	\$ 65,075,207	\$ 69,248,888	\$ 73,935,445	\$ 77,534,549	\$ 80,517,640

¹ Percentage of appraised value has been established by statute.

² Valuation of railroads, telephone companies and other utilities as determined by the North Carolina Property Tax Commission.

Note: Revaluation of real property became effective with the 2001 tax levy. The next revaluation will become effective with the 2005 tax levy.

TAX COLLECTIONS

<u>Fiscal Year Ended June 30</u>	<u>Prior Years' Levies Collected</u>	<u>Current Year's Levy Collected</u>	<u>Percentage of Current Year's Levy Collected</u>
1998	\$1,688,341	\$53,974,583	96.34%
1999	1,889,752	57,394,379	96.46
2000	1,758,984	62,069,180	95.38
2001	1,863,627	65,977,830	95.28
2002	2,069,378	72,116,236	96.62
2003(11 mos.)	2,001,162	76,444,049	96.59

TEN LARGEST TAXPAYERS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

<u>Company</u>	<u>Type of Enterprise</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Percentage of Total Assessed Valuation</u>
Verizon South	Communications	\$172,405,139	\$948,228	1.36%
International Business Machines	Manufacturer	132,619,756	729,409	1.05
Duke Power	Utility	104,310,158	573,706	0.82
Glaxo Welcome, Inc.	Manufacturer	91,557,525	503,566	0.72
Cree Research	Manufacturer	85,646,658	471,057	0.67
CMD Properties, Inc.	Real Estate	67,582,287	371,703	0.53
VAC Limited Partnership	Real Estate	66,579,433	366,187	0.52
South Point Mall, LLC	Real Estate	60,365,829	332,012	0.48
Highwoods/Forsyth Limited Partnership	Real Estate	54,783,900	301,311	0.43
Sumitomo Electric Liteware	Utility	45,653,728	251,096	0.36
		<u>\$881,504,413</u>	<u>\$4,848,274</u>	<u>6.16%</u>

Source: Durham County Tax Assessor.

2002-03 Budget Commentary

The City's adopted General Fund budget for the fiscal year ended June 30, 2003 is \$154 million. Early in the fiscal year, the City was notified by the County that an error had been made in the calculations of assessed property value which negatively impacted projected revenues by \$3.2 million. In addition, because of the slow economy, minor negative impacts have been experienced in occupancy taxes. The City was able to address these projected revenue shortfalls through a combination of anticipated reductions in expenditures and increases in some revenue sources.

In December 2002, a new half-cent sales tax was implemented in the County. The North Carolina General Assembly authorized local governments to implement this additional half-cent sales tax to replace certain local government distributions that were eliminated by the State in September 2002. This additional half-cent sales tax provided an additional revenue source and positively impacted the City's budget since the City had not anticipated receiving the State reimbursements in the budget for the fiscal year ended June 30, 2003. It is projected that the City's receipts from this new half-cent sales tax will exceed the amount lost from State reimbursements, while the County's share of the new half-cent sales tax does not completely make up for its lost State reimbursements. In order to more equitably distribute the new half-cent sales tax revenues the City and County entered into an agreement, with an anticipated term of five years, that divides the amount of the City's new half-cent sales tax receipts that are in excess of lost reimbursements on a 50/50 basis. It is anticipated that this agreement will result in the City transferring \$780,000 to the County in the fiscal year ending June 30, 2004.

In May 2003, the City prepared a comprehensive analysis of projected revenues and expenditures. Despite the slow economy and revisions to revenue, the City fully anticipates ending the fiscal year with a balanced budget without imposing any mandatory spending reductions. The City adopted its budget for the fiscal year ending June 30, 2004 on June 16, 2003. The budget was adopted with no change to the property tax rate.

Pension Plans

The following information on the pension plan is provided on the calendar year basis, whereas the information in the independent auditor's footnote was presented on the fiscal year basis.

The City participates in the North Carolina Local Governmental Employees' Retirement System.

North Carolina Local Governmental Employees' Retirement System—The North Carolina Local Governmental Employees' Retirement System (the "System") is a service agency administered through a board of trustees by the State for public employees of counties, cities, boards, commissions and other similar governmental entities. While the State Treasurer is the custodian of System funds, administrative costs are borne by the participating employer governmental entities. The State makes no contributions to the System.

The System provides, on a uniform System-wide basis, retirement and, at each employer's option, death benefits from contributions made by employers and employees. Employee members contribute six percent of their individual compensation. Each new employer makes a normal contribution plus, where applicable, a contribution to fund any accrued liability over a 24-year period. The normal contribution rate, uniform for all employers, is currently 4.80 percent of eligible payroll for general employees and 5.27 percent of eligible payroll for law enforcement officers. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employees' service rendered prior to the date the employer joins the System.

Members qualify for a vested deferred benefit at age 60 with at least five years of creditable service to the unit of local government. Unreduced benefits are available: at age 65, with at least five years of creditable service; at age 60, with at least 25 years of creditable service; or after 30 years of creditable service, regardless of age. Benefit payments are computed by taking the annual compensation for the four consecutive years of membership service yielding the highest average. This average is then adjusted by a percentage formula, by a total years of service factor, and by an age service factor if the individual is not eligible for unreduced benefits.

Contributions to the system are determined on an actuarial basis by the firm of George B. Buck Consulting Actuaries, Inc. The latest actuarial study was for the period ended December 31, 2001, and included a seven and one-quarter percent investment return assumption.

The number of governmental entities participating in the system on December 31, 2001 was 864. The number of employee members, including those retired, on that date was 149,932. The net assets of the system as of December 31, 2001 were \$10,764,032,034^{1,2} and the unfunded accrued liability of the system on December 31, 2001 was \$72,427,629^{1,2}. The excess of disbursements over income of the system for the calendar year 2001 was \$213,285,234.

The City joined the System on January 1, 1946. According to the December 31, 2001 actuarial valuation, the unfunded accrued liability of the City had been liquidated. The City will continue to make current contributions. The contribution rate for general employees is the sum of the 4.80 percent normal contribution rate (applicable to all employer units). The contribution rate for law enforcement officers is

¹ Report of independent actuary.

² Unaudited.

the sum of the 5.27 percent normal contribution rate (applicable to all employer units with officers), .14 percent for death benefits and other optional benefit coverages, less the value of court cost receipts equal to .63 percent.

Following are the amounts contributed to the System by the City and its eligible employees for the three fiscal years ended June 30, 2000-2002:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Employee Contributions	\$4,061,075	\$4,163,248	\$4,410,788
Employer Contributions	2,776,523	3,330,598	3,495,481

Following is a cash flow analysis of the System for the five years ended December 31, 2001:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001¹</u>
Income:					
Employee Contributions	\$ 175,618,387	\$ 187,059,971	\$ 199,876,539	\$ 213,126,076	\$ 226,787,046
Employer Contributions	146,371,615	155,478,360	163,693,165	175,221,460	187,962,134
Investment Income	2,839,671,726	1,473,300,625	1,032,836,915	301,463,799	(197,935,175)
Other Income	<u>4,754,627</u>	<u>4,666,912</u>	<u>4,461,879</u>	<u>4,360,174</u>	<u>4,722,944</u>
	<u>3,166,416,355</u>	<u>1,820,505,868</u>	<u>1,400,868,498</u>	<u>694,171,509</u>	<u>221,536,949</u>
Disbursements:					
Payments to Retired Members	247,822,271	281,795,450	308,825,371	341,641,398	378,764,870
Refunds	47,190,967	55,039,537	54,065,632	56,045,580	53,185,486
	<u>1,696,284</u>	<u>1,891,798</u>	<u>2,351,986</u>	<u>2,379,990</u>	<u>2,871,827</u>
Other Disbursements	<u>296,709,522</u>	<u>338,726,785</u>	<u>365,242,989</u>	<u>400,066,968</u>	<u>434,822,183</u>
Excess of Income over Disbursements	<u>\$2,869,706,833</u>	<u>\$1,481,779,083</u>	<u>\$1,035,625,509</u>	<u>\$294,104,541</u>	<u>\$(213,285,234)</u>

¹ Unaudited.

Source: North Carolina Local Governmental Employees' Retirement System.

Following is additional financial information concerning the System for the five years ended December 31, 2001:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001¹</u>
Net Assets	\$6,928,217,417	\$7,625,281,457	\$8,818,582,742	\$9,892,804,581	\$10,764,032,034
Unfunded Accrued Liability	63,484,974	62,691,692	66,946,841	74,743,188	72,427,629

¹ Unaudited.

Source: Annual reports of independent actuary.

The Supplemental Retirement Income Plan of North Carolina—The Supplemental Retirement Income Plan was created by the North Carolina General Assembly under Section 401(a) of the Internal Revenue Service Code and is a defined contribution plan with a cash or deferred arrangement as provided under Section 401(k) of the Code. Employees may make voluntary contributions to the plan, provided their employer has elected to allow its employees to participate. Local government employers of law

enforcement officers are currently required to contribute an amount equal to 5% of law enforcement officers' monthly compensation to the Plan.

Contingent Liabilities

As of July 7, 2003, the City has five pending land condemnation cases. The City is required in each case to deposit with the court an amount representing its estimate of just compensation for the property taken and, accordingly, the City has deposited a total \$462,538 in these cases. The other parties are contending or may contend that the value of their properties exceeds the amounts so deposited. These cases could result in substantial judgments or settlements in favor of the property owners in excess of the amounts paid into court by the City.

The City is a defendant in a case alleging deprivation of constitutional rights not involving physical injury. The case alleges violations of the North Carolina Constitution resulting from the City's approval of a moderate-income housing project.

The City is a defendant in a case alleging that police department officials used excessive force or otherwise violated the constitutional rights of citizens in their capacity as police officers.

In addition, there are two lawsuits alleging personal injury arising from police department operations. One lawsuit presents a claim for injuries sustained to a pedestrian who was struck by a City police vehicle during an emergency call response. The other lawsuit claims negligent investigation on the part of a police officer during a traffic investigation. In both cases, it would appear that the City may have a valid immunity defense and thus would not be liable for damages. If, however, the claimants are able to successfully argue against immunity and prove liability, the cases would each present a potential financial exposure to the City in excess of \$100,000.

The City expects that a claim may be presented to the City relating to the death of a teenager involved in a motor vehicle accident with a City police vehicle. The City may have an immunity defense to such claim. If the potential claimant is able to successfully argue against immunity and prove liability, the claim would present a potential financial exposure in excess of \$100,000; however, the City has excess liability insurance coverage that the City anticipates would be available to pay any sums in excess of \$350,000 regarding the potential claim.

With the exception of the matters referred to above, the City Attorney is unaware of any other pending litigation or other contingent liabilities with respect to which there is a reasonable expectation of a loss which could have a substantial adverse impact on the City's financial position or its ability to meet its financial obligations.

CONTINUING DISCLOSURE

In the Contract, the City will undertake, for the benefit of the beneficial owners of 2003 Certificates to provide:

(a) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ended June 30, 2003, to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of North Carolina ("SID"), if any, audited financial statements of the City for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the City are not then available, unaudited

financial statements of the City for such Fiscal Year to be replaced subsequently by audited financial statements of the City to be delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each Fiscal Year of the City, beginning with the Fiscal Year ended June 30, 2003, to each NRMSIR, and to the SID, if any, (i) the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year (which data shall be prepared at least annually, shall specify the date as to which such information was prepared and shall be delivered together with any subsequent material events notices specified in (c) below) for the type of information included under headings "THE CITY - Debt Information" and "- Tax Information" (excluding any information on overlapping or underlying units) in this Official Statement and (ii) the combined budget of the City for the current Fiscal Year, to the extent such items are not included in the audited financial statements referred to in (a) above;

(c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB"), and to the SID, if any, notice of any of the follow events with respect to the 2003 Certificates, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) adverse tax opinions or events affecting the tax status of interest with respect to the 2003 Certificates;
- (4) modification to the rights of the beneficial owners of the 2003 Certificates;
- (5) call of any of the 2003 Certificates for prepayment, other than calls related to mandatory sinking fund prepayments;
- (6) defeasance of any of the 2003 Certificates;
- (7) release, substitution or sale of any property securing repayment of the 2003 Certificates; and
- (8) rating changes; and

(d) in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of a failure of the City to provide required annual financial information described in (a) or (b) above on or before the date specified.

At present, Section 159-34 of the General Statutes of North Carolina requires the City's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The Contract will also provide that such undertaking is intended to be for the benefit of the Owners and the beneficial owners of the 2003 Certificates and is enforceable by the Trustee or by any of them, including an action for specific performance, but a failure to comply with such undertaking will not result in acceleration of the Installment Payments. An action must be instituted, had and maintained in the manner provided in this paragraph for the benefit of all Owners and beneficial owners of the 2003 Certificates.

Pursuant to the Contract, the City will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the City, provided that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12") as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the Owners or the beneficial owners, as determined by the Trustee or nationally recognized bond counsel or by the approving vote of the Owners of a majority in principal amount of the 2003 Certificates pursuant to the terms of the Indenture.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal and interest with respect to the 2003 Certificates.

The City has not failed to comply with any prior continuing disclosure undertakings under Rule 15c2-12.

THE LOCAL GOVERNMENT COMMISSION

The Contract has been approved by the LGC. The LGC is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue and five others by appointment (three by the Governor, one by the General Assembly upon the recommendation of the President Pro Tempore of the Senate and one by the General Assembly upon recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the LGC's Secretary, who heads the LGC's administrative staff.

A major function of the LGC is the approval, sale and delivery of all North Carolina local government general obligation and revenue bonds and notes and the approval of certain contracts entered into under Section 160A-20 of the North Carolina General Statutes and certain other financing agreements. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by The Local Government Budget and Fiscal Control Act. In addition, the LGC furnishes, upon request, on-site assistance to units of local government concerning existing financial and accounting systems as well as aid in establishing new systems. Further, educational programs and materials are provided for local officials concerning finance and cash management.

LEGAL MATTERS

Certain legal matters related to the authorization, execution, sale and delivery of the 2003 Certificates are subject to the approval of Parker Poe Adams & Bernstein L.L.P., Charlotte, North Carolina, and The Banks Law Firm, P.A., Research Triangle Park, North Carolina, Co-Special Counsel. Certain legal matters will be passed upon for the City by Henry D. Blinder, Esq., Durham, North Carolina, City Attorney, for the Corporation by Wyrick Robbins Yates & Ponton LLP, Raleigh, North Carolina, counsel to the Corporation, and for the Underwriters by Womble Carlyle Sandridge & Rice, PLLC, Raleigh, North Carolina, counsel to the Underwriters.

TAX TREATMENT

Federal Taxation. On the date of the initial execution and delivery of the 2003 Certificates, Parker Poe Adams & Bernstein L.L.P., Charlotte, North Carolina, and The Banks Law Firm, P.A. (“Co-Special Counsel”), will each render an opinion that, under existing law, the portion of the Installment Payments designated and paid as interest, as provided in the Contract, is not excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”).

The Code requires debt obligations, such as the 2003 Certificates, to be issued in registered form and denies certain tax benefits to the issuer and the holders of obligations failing this requirement. The registration requirements of the Code are expected to be satisfied.

Interest paid to an Owner of a 2003 Certificate will ordinarily not be subject to withholding of federal income tax if such owner is a United States person. However, even a United States person will be subject to withholding of such tax at a rate of 30% under certain circumstances. Except in the case of certain “exempt payees” as defined in the Code, this withholding generally applies if the Owner of a 2003 Certificate (1) fails to furnish to the Trustee such Owner’s social security number or other taxpayers identification number (“TIN”), (2) furnished the Trustee an incorrect TIN, (3) fails to report properly interest, dividends or other “reportable payments” as defined in the Code, or (4) under certain circumstances, fails to provide the Trustee with a certified statement, signed under penalty of perjury, that the TIN provided to the Trustee is correct and that such Owner is not subject to backup withholding.

Generally, payments of interest with respect to the 2003 Certificates to an Owner who is a nonresident alien individual, foreign corporation or other non-United States person (a “foreign person”) not engaged in a trade or business within the United States will not be subject to federal income or withholding tax if such Owner complies with certain identification requirements (including delivery of a statement, signed by the Owner under penalty of perjury, certifying that such Owner is a foreign person and providing the name and address of such Owner.) Foreign investors should consult their tax advisors regarding the potential imposition of the 30% withholding tax. The discussion herein is based on the assumption that the Owners of the 2003 Certificates are not foreign persons. Special rules may apply to foreign persons with respect to information reporting requirements and backup withholding taxes.

Subject to certain exceptions, interest payments to the Owners with respect to the 2003 Certificates will be reported to the Internal Revenue Service. Such information will be filed each year with the Internal Revenue Service on Form 1099 which will reflect the name, address and taxpayer identification number of the registered owner. A copy of Form 1099 will be sent to each registered owner of a 2003 Certificate for federal income tax reporting purposes.

The resale of a 2003 Certificate may be affected the “market discount” provisions of the Code. For this purpose, the market discount on a 2003 Certificate will generally be equal to the amount, if any, by which the stated redemption price at maturity of the 2003 Certificate immediately after its acquisition exceeds the Owner’s tax basis in the 2003 Certificate. Subject to a *de minimis* exception, these provisions generally require an Owner of a 2003 Certificate acquired at a market discount to treat as ordinary income any gain recognized on the disposition of such 2003 Certificate to the extent of the “accrued market discount” on such 2003 Certificate at the time of disposition. In general, market discount on a 2003 Certificate will be treated as accruing on a straight-line basis over the term of such 2003 Certificate, or, at the election of the Owner, under a constant yield method. An Owner of a 2003 Certificate acquired at a market discount may be required to defer the deduction of a portion of the interest with respect to any indebtedness incurred or maintained to purchase or carry the 2003 Certificate until the 2003 Certificate is disposed of in a taxable transaction, unless the Owner elects to include accrued market discount in income currently.

If a 2003 Certificate is sold or redeemed, the seller will recognize gain or loss equal to the difference between the amount realized on the sale or redemption and the seller’s adjusted basis in the 2003 Certificate. Such adjusted basis generally will equal the cost of the 2003 Certificate to the seller, increased by any original issue discount and market discount included in the seller’s gross income. Except with respect to market discount, gain or loss recognized on a sale, exchange or redemption of a 2003 Certificate will generally give rise to capital gain or loss if the 2003 Certificate is held as a capital asset and will be long-term if the holding period is more than one year. The holding period analysis may be affected by the determination of whether the 2003 Certificates are treated as a single debt instrument or a series of debt instruments and Owners should consult with their own tax advisers regarding any such affect.

Original Issue Discount. The 2003 Certificates maturing on June 1, 2009 to 2011, inclusive, and 2023 will be initially delivered at a discount from par value. Original issue discount (“OID”) will arise with respect to this portion of the 2003 Certificates. The amount of OID on a 2003 Certificate is the excess of its “stated redemption price at maturity” over its “issue price,” subject to a statutorily-defined *de minimis* exception. The “issue price” of a 2003 Certificate issued in exchange for money is the first price at which a substantial amount of the 2003 Certificate is sold for money. The “stated redemption price at maturity” of a 2003 Certificate is the sum of its principal amount plus all other payments required thereunder, other than payments of “qualified stated interest” (defined generally as stated interest that is unconditionally payable in cash or in property (other than 2003 Certificates) at least annually at a single fixed rate that appropriately takes into account the length of intervals between payments).

In general, the holder of a 2003 Certificate issued with OID must currently include in gross income for federal income tax purposes the sum of the daily portion of OID with respect to such 2003 Certificate for each day during the taxable year or portion of a taxable year on which such holder holds the 2003 Certificate. The daily portion is determined by allocating to each day of any accrual period a *pro rata* portion of an amount equal to (1) the “adjusted issue price” of the 2003 Certificate at the beginning of the accrual period, multiplied by the yield to maturity of the 2003 Certificate, less (2) the amount of any qualified stated interest allocated to the accrual period. The “adjusted issue price” is the issue price of the 2003 Certificate increased by the amount of OID previously included in gross income for all prior accrual periods (and decreased by the amount of cash payments made in all prior accrual periods, other than qualified stated interest payments). The tax basis of the 2003 Certificate in the hands of the holder will be increased by the amount of OID, if any, on the 2003 Certificate that is included in the holder’s gross income and will be decreased by the amount of any cash payments (other than qualified stated interest payments) received with respect to the 2003 Certificate, whether such payments are denominated as principal or interest.

State Taxation. Co-Special Counsel are further of the opinion that, under existing law, the interest with respect to the 2003 Certificates is exempt from all State of North Carolina income taxation.

Other Tax Consequences. Co-Special Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to each of Co-Special Counsel as of the date thereof. Co-Special Counsel assume no duty to update or supplement their opinions to reflect any facts or circumstances that may thereafter come to Co-Special Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Co-Special Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Co-Special Counsel's professional judgments based on their review of existing law, and in reliance on the representations and covenants that Co-Special Counsel deem relevant to such opinions. Co-Special Counsel's opinions express the professional judgment of the attorneys rendering the opinions regarding the legal issues expressly addressed therein. By rendering their opinions, Co-Special Counsel do not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinions are rendered, or of the future performance of the Corporation and the City, nor does the rendering of such opinions guarantee the outcome of any legal dispute that may arise out of the transaction.

LITIGATION

No litigation is now pending against the City or the Corporation in any court seeking to restrain or enjoin the authorization, execution or delivery of the 2003 Certificates or contesting the authority of proceedings for the authorization, execution or delivery of the 2003 Certificates or the validity thereof, or the creation, organization, corporate existence or powers of the City or the Corporation as they relate to the authorization, execution or delivery of the 2003 Certificates, or the title of any of the present officers thereof to their respective titles or the authority or proceedings for the execution and delivery of the Contract or the Indenture by the City or the Corporation.

RATINGS

Fitch, Moody's and S&P have assigned their respective ratings to the 2003 Certificates set forth on the front cover. Further explanation of the significance of such ratings may be obtained from Fitch, Moody's and S&P. The City has provided to Fitch, Moody's and S&P certain information that has not been included in this Official Statement. The ratings are not a recommendation to buy, sell or hold the 2003 Certificates and should be evaluated independently. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of Fitch, Moody's or S&P, circumstances so warrant. The Underwriters have no responsibility to either bring to the attention of Owners of the 2003 Certificates any proposed revision or withdrawal of the ratings or to oppose any such proposed revision or withdrawal. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2003 Certificates.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., San Francisco, California, as financial advisor in connection with the delivery and sale of the 2003 Certificates. Although Public Financial Management, Inc. has assisted in the preparation of this Official Statement, Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

UNDERWRITING

The Underwriters have agreed under the terms of a Certificate Purchase Agreement to purchase all of the 2003 Certificates, if any of the 2003 Certificates are to be purchased, at a purchase price equal to 100% of the principal amount of the 2003 Certificates, less an underwriters' discount of \$87,500. The Underwriters' obligation to purchase the 2003 Certificates is subject to certain terms and conditions set forth in such Certificate Purchase Agreement.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement and its distribution and use by the Underwriters has been duly authorized and approved by the Corporation and the City.

NEW DURHAM CORPORATION

By: /s/ William J. Kennedy, III

President

APPENDIX A

**FINANCIAL INFORMATION OF
THE CITY OF DURHAM, NORTH CAROLINA**

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Management Discussion and Analysis

The following is Management's Discussion and Analysis of the financial activities of the City, lifted from the Comprehensive Annual Financial Report for the City for the fiscal year ended June 30, 2002. Management's Discussion and Analysis provides an objective and easily readable short and long-term analysis of the City's financial activities based on currently known facts, decisions or conditions. Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The independent auditors of the City have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, they did not audit this information and did not express an opinion on it.

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CITY Of DURHAM, NORTH CAROLINA

Management's Discussion and Analysis

For the Year Ended June 30, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Durham's financial performance provides an overview of the City's financial activities for the year ended June 30, 2002. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, and the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the Fiscal Year 2002 are as follows:

- The assets of the City of Durham exceeded its liabilities at the close of the most recent fiscal year by \$224,723,779. Of this amount, \$172,179,332 may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets increased by \$7,201,187 during the most recent fiscal year resulting from governmental and business-type activities. This increase is due primarily to an excess of operating revenues over operating expenses in the Water and Sewer Enterprise Fund.
- As of the close of the fiscal year, the City of Durham's governmental funds reported combined ending fund balances of \$74,903,204, an increase of \$24,603,576 in comparison with the prior year. The bulk of this increase is due to the issuance of debt reflected in the Capital Project Funds. Approximately one third of this total is unreserved fund balance available for spending at the City's discretion
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$13,541,204, or 10.47 % of total general fund expenditures.
- The City of Durham's total debt increased by \$33,737,215 (9.26%) during the current fiscal year. The primary component of this increase was the issuance of \$25,910,000 in general obligation public improvement bonds.
- The City of Durham maintained its AAA bond rating from all three bond rating agencies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Durham's basic financial statements. The City of Durham's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits 3 through 12) are Fund Financial Statements. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Durham's finances in a manner similar to a private-sector business.

Required Components of the Annual Financial Report

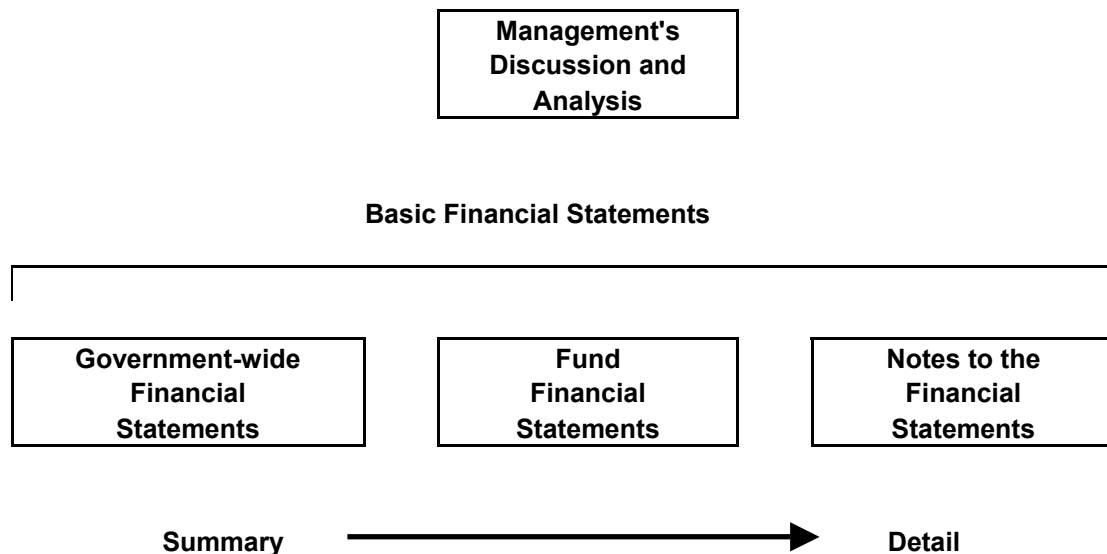


Figure 1

The statement of net assets presents information on all of the City of Durham's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Durham is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Durham that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the City of Durham include general government, public safety, streets, planning, inspections, recreation and parks. The business type activities of the City of Durham include water and sewer, parking facilities, transit, solid waste management, civic center, ballpark and storm water management.

The government-wide financial statements include not only the City of Durham itself, but also two legally separate non profit corporations for which the City of Durham is financially accountable. The Durham Risk Management Corporation (DRM) is a nonprofit corporation duly incorporated in the State, and validly existing and in good standing under the North Carolina Nonprofit Corporation Act, Chapter 55A of the General Statutes of North Carolina. Although legally separate from the City, DRM is reported as if it were part of the government because its sole purpose is to assist the City in carrying out its municipal and governmental functions through the provision of risk management and the administration of claims and is not engaged in any other activity and has no taxing power. All DRM activities are included in the Risk Retention Fund, which is an Internal Service Fund.

The New Durham Corporation (NDC) is legally separate from the City, although the NDC is reported as if it were a part of the government because its purpose is to finance City revitalization projects and purchases of capital equipment. All NDC activities are included in the funds in which the activity takes place.

The government-wide financial statements can be found on pages 18-21 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Durham, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Durham can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Durham adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens

of the City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted; 2) the final budget as amended; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement. The basic governmental fund financial statements can be found on pages 22-27.

Proprietary Funds The City of Durham has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. These services include water and sewer, parking facilities, transit, solid waste, civic center, ballpark and storm water management. They are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are used as an accounting device to accumulate and allocate costs internally among other funds. The City uses an internal service fund to account for risk management and claims settlement activities. The Risk Retention Fund, because its operation benefits predominantly governmental rather than business-type activities, has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds The City's only *Fiduciary Fund*, a pension trust, is used to account for resources held for the benefit of the City's employees. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 45-70.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Durham's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 71-72.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended June 30, 2002 are the beginning of a new era in financial reporting for the City of Durham, and many other units of government across the United States. Prior to this year, the City maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Durham's comprehensive annual financial report as well as those of many other units of government. While the City was required to implement these changes for the fiscal year ended June 30, 2002, other units may not be required to implement until 2003 or 2004. Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are accessible, they have been included, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

Statement of Net Assets As of June 30, 2002

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Current and other assets	\$ 144,748,960	\$ 106,506,481	\$ 251,255,441
Capital assets	146,892,723	283,223,675	430,116,398
Total assets	291,641,683	389,730,156	681,371,839
Long-term liabilities outstanding	157,317,200	236,627,207	393,944,407
Other liabilities	32,463,554	30,240,099	62,703,653
Total liabilities	189,780,754	266,867,306	456,648,060
Net assets:			
Invested in capital assets, net of related debt	4,969,527	47,574,920	52,544,447
Restricted	41,429,454	17,313,572	58,743,026
Unrestricted	55,461,948	57,974,358	113,436,306
Total net assets	\$ 101,860,929	\$ 122,862,850	\$ 224,723,779

For more detailed information see the Statement of Net Assets on page 18.

Net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City exceeded liabilities by \$224,723,779 as of June 30, 2002. Net assets are reported in three categories: Invested in capital assets, net of related debt of \$52,544,447, restricted net assets of \$58,743,026 and unrestricted net assets \$113,436,306.

The invested in capital assets, net of related debt category is defined as the City's investment in City owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment, and sewer lines), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities

Another category of net assets is restricted net assets. This represents resources that are subject to external restrictions on how they may be used. At June 30, 2002 the City had \$58,743,026 in restricted assets.

The final category of net assets is unrestricted net assets. This balance may be used to meet the government's ongoing obligations to citizens and creditors. At June 30, 2002, the total reported was \$113,436,306.

The following is a schedule of revenues and expenses for the current fiscal year.

Statement of Activities

	Governmental Activities	Business-type Activities	Total
	2002	2002	2002
Revenues:			
Program revenues:			
Charges for services	\$ 18,751,047	\$ 71,978,347	\$ 90,729,394
Operating grants and contributions	9,146,661	427,779	9,574,440
Capital grants and contributions	3,979,489	126,025	4,105,514
General revenues:			
Property taxes	73,896,587	1,090,958	74,987,545
Other taxes	30,313,289	-	30,313,289
Grants and contributions not restricted to specific programs	5,863,538	-	5,863,538
Other	5,180,824	-	5,180,824
Total revenues	147,131,435	73,623,109	220,754,544

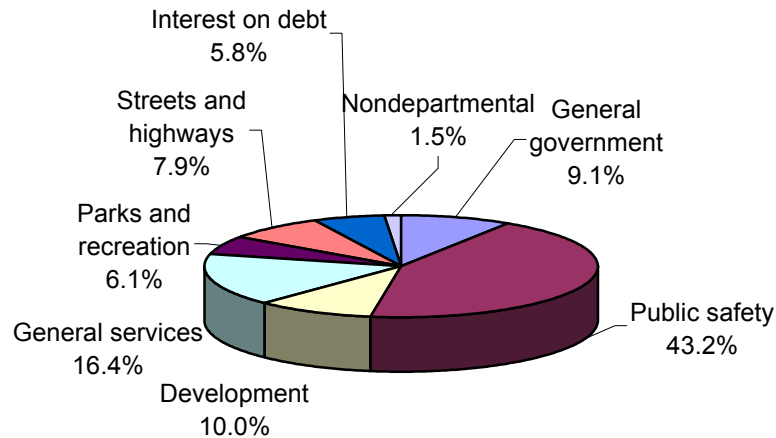
	Governmental Activities	Business-type Activities	Total
	2002	2002	2002
Expenses:			
General government	12,563,069	-	12,563,069
Public safety	59,361,726	-	59,361,726
Development	13,695,429	-	13,695,429
General services	22,568,784	-	22,568,784
Parks and recreation	8,332,950	-	8,332,950
Streets and highways	10,818,417	-	10,818,417
Interest on long-term debt	8,008,197	-	8,008,197
Nondepartmental	2,001,504	-	2,001,504
Water and sewer	-	44,126,403	44,126,403
Parking facilities	-	1,993,515	1,993,515
Transit	-	11,647,698	11,647,698
Solid waste disposal	-	9,842,653	9,842,653
Civic center	-	1,736,560	1,736,560
Ballpark	-	2,046,787	2,046,787
Storm water management	-	4,809,665	4,809,665
Total expenses	137,350,076	76,203,281	213,553,357
Increase in net assets before transfers	9,781,359	(2,580,172)	7,201,187
Transfers	(8,559,747)	8,559,747	-
Increase in net assets	1,221,612	5,979,575	7,201,187
Net assets, July 1	100,639,317	116,883,275	217,522,592
Net assets, June 30	\$ 101,860,929	\$ 122,862,850	\$ 224,723,779

Governmental Activities

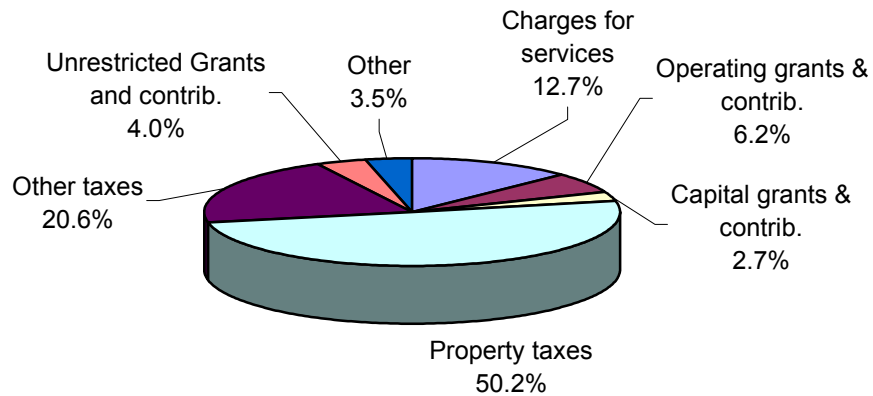
Because this is the first year that a *statement of activities* is being presented there is no comparison to the prior year. The only comparison that can be made is the change in total net assets, an increase of \$1,221,612.

Tax revenues (\$104,209,876) covered approximately 76% of governmental activity expenses (\$137,350,076) and program revenues (\$31,877,197) generated approximately 23%. Public safety accounted for approximately 43% of all expenses in governmental activities. The following graphs show the breakdown by percentage of governmental expenses and revenues.

Governmental Expenses FY01-02



Governmental Revenues FY01-02

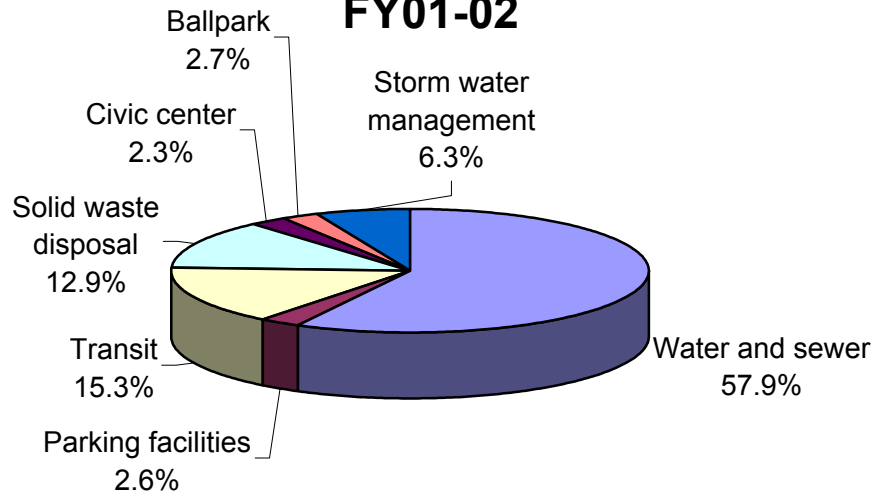


Business-type Activities

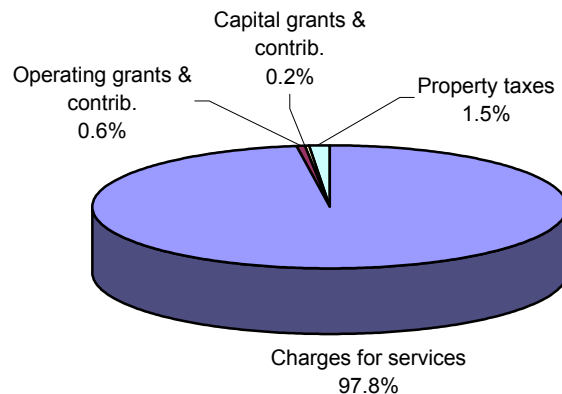
The water and sewer activity is the largest of the business type activities, it accounted for more than 57% of the expenses (\$44,126,403) and almost 69% (\$50,022,886) of the revenues. Total business type expenses were \$76,203,281 and total revenues were \$72,532,151.

The following graphs show the breakdown by percentage of business type expenses and revenues.

Business-type Activities Expenses FY01-02



Business-type Activities Revenues FY01-02



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's general fund had a fund balance of \$22,844,708, of which \$13,541,204 was unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period \$3,755,336
- Restricted cash \$1,845,337
- Reserved by state statute \$2,966,748
- Designated for subsequent years expenditures, (\$715,000)
- Other restricted purposes (\$21,083)

The undesignated fund balance of the general fund increased by \$223,384 during the current fiscal year. Revenues in the general fund increased by \$3,010,440 to \$132,528,752. Taxes increased by \$6,323,052 to \$100,353,319, but intergovernmental revenues decreased from \$17,250,240 to \$12,900,986 an amount of \$4,349,254. This was due to a decrease in state shared revenues. All other sources of revenue in the general fund had minor increases or decreases.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to:

- Water and Sewer Utility \$84,331,409
- Parking Facilities \$320,743
- Transit \$1,286,597
- Solid Waste Disposal \$(5,332,393)
- Civic Center \$(6,204,135)
- Ballpark \$(4,364,543)
- Storm Water Management \$4,948,034.

The total growth in net assets for all proprietary funds was \$5,979,575. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Differences between the original budget and the final amended budget were minor (\$6,902,709 increase in appropriations) and can be briefly summarized as follows:

- \$358,991 increase in governance
- \$1,090,538 increase in public protection
- \$2,217,934 increase in community service and development
- \$1,254,998 increase in administrative and support services
- \$1,980,248 increase in cemetery operations

Of this increase, \$4,910,299 was to be funded out of other revenues, \$1,982,100 was to be transferred from other funds and \$110,310 was to be budgeted from available fund balance. There was a \$100,000 decrease in intergovernmental revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2002, totals \$700,974,071. These assets include buildings, infrastructure, land, machinery and equipment, park facilities, vehicles, water and sewer lines, and construction in progress.

Major capital asset transactions during the year include the following additions.

Business type activities:

- Construction in progress for water capital assets of \$5,700,123.
- Construction in progress for sewer capital assets of \$1,932,596.

Governmental type activities:

- Construction in progress for park improvement projects \$3,325,331.
- Construction in progress for street projects \$5,979,726.
- Construction in progress for municipal buildings \$4,645,744.

Capital Assets

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Land	\$ 22,353,098	\$ 36,023,771	\$ 58,376,869
Buildings, equipment and depreciable assets	161,584,697	450,991,688	612,576,385
Construction in progress	14,778,668	15,242,149	30,020,817
Total	<u>\$ 198,716,463</u>	<u>\$ 502,257,608</u>	<u>\$ 700,974,071</u>

See Note 3, C beginning on page 55 of this report for more information.

Debt Administration

As of year-end, the City had \$398,227,501 in debt (bonds, notes, etc...) outstanding compared to \$364,490,286 in the prior fiscal year, a 9.26% increase.

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
General obligation bonds	\$ 103,331,160	\$ 83,058,287	\$ 127,908,843	\$ 136,461,713	\$ 231,240,003	\$ 219,520,000
Revenue bonds	5,080,000	5,135,000	48,310,000	28,095,000	53,390,000	33,230,000
Certificates of Participation	53,275,000	51,860,000	15,475,000	16,610,000	68,750,000	68,470,000
Capital leases	273,529	454,317	-	-	273,529	454,317
State of North Carolina	59,249	59,249	12,375,227	10,425,227	12,434,476	10,484,476
Durham County	-	-	32,139,493	32,331,493	32,139,493	32,331,493
Total	<u>\$ 162,018,938</u>	<u>\$ 140,566,853</u>	<u>\$ 236,208,563</u>	<u>\$ 223,923,433</u>	<u>\$ 398,227,501</u>	<u>\$ 364,490,286</u>

The City issued the following debt for the fiscal year end June 30, 2002:

Revenue Bond Issuance

On July 31, 2001 the City of Durham issued Water and Sewer Utility System Revenue Bonds, Series 2001 dated July 15, 2001 in the amount of \$22,000,000. The bonds were issued to the provisions of The Local Government Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina, orders duly adopted by the City Council of the City, and resolution duly passed by the City Council. The bonds are being issued to provide funds, together with other available funds, to pay, or reimburse the City for paying, a portion of the costs of the acquisition and construction of certain improvements to the Water and Sewer Utility System of the City.

Certificates of Participation Issuance

On July 31, 2001 the City of Durham issued Certificates of Participation, (COPS) Series 2001 dated July 15, 2001 in the amount of \$23,660,000. The COPS were issued to the provisions of The Local Government Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina, orders duly adopted by the City Council of the City, and resolution duly passed by the City Council. The COPS are being issued to provide funds that will be used by the City to pay the costs of renovation of City Hall, acquisition, construction and equipping of a City maintenance facility and a new fire station and acquisition of a new pumper/ladder fire fighting vehicle and eleven garbage trucks.

General Obligation Bonds Issuance

On June 4, 2002 the City of Durham issued General Obligation Public Improvement Bonds, Series 2002 dated June 1, 2002 in the amount of \$25,910,000. The bonds were issued to the provisions of The Local Government Bond Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina, five orders duly adopted by the City Council of the City, and a resolution duly passed by the City Council. The bonds are being issued to provide funds, together with other available funds, for undertaking housing programs, providing and improving parks and other recreational facilities, constructing and reconstructing streets, improving arts and museum facilities of the city and providing public transportation system improvements.

As mentioned in the financial highlights section of this document, the City maintained for the third consecutive year, its Aaa bond rating from Moody's Investor Service and AAA rating from Standard and Poor's Corporation and Fitch Ratings. This bond rating is a clear indication of the sound financial condition of the City. The City is one of the few in the country that maintains the highest financial rating from all three major rating agencies. This achievement is a primary factor in keeping interest costs low on the City's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City is \$1,106,818,034. The net bonded debt issued, applicable to the bonded debt limit, is \$314,010,241 leaving a remaining debt margin of \$792,807,793. The City also has \$26,772,000 in general obligation bonds authorized but unissued at June 30, 2002.

Additional information regarding the City's long-term debt can be found in Note 3, G beginning on page 58 of this report.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2003

Governmental Activities

Property taxes (benefiting from local development) are expected to lead the increase in budgeted revenue by 8.0 %. There will also be expected revenue increase in other taxes, general operating revenue and in charges for services. Some of these increases will be offset by an expected 15.2% decrease in intergovernmental revenues. This is due the State of North Carolina's elimination of certain state shared revenues.

Budgeted expenditures in the General Fund are expected to decrease 1.6%, again state shared revenues are a factor in the decreasing expenditures.

The budget projections assume that an additional 1/2 % sales tax increase will be use to make up some of the loss in state shared revenues such as; intangibles taxes, inventory taxes and homestead taxes.

Some of the budget initiatives include Safe Neighborhoods, Emergency Preparedness and Response, Downtown Revitalization and Managing Growth.

Some capital improvement plans include park facilities and trails such as Durham Central Park, North-South Trail, American Tobacco Trail and the Eno Greenway.

Other capital improvements include Housing and Neighborhood Revitalization, Public Protection upgrades such as new Fire Stations and Radio Equipment.

Business-type Activities

The water and sewer rates in the City will increase by 5.28%, primarily to cover increased costs of operations. Over all revenues are expected to increase 2.5%. General operating expenses will increase by 5.0% to cover increased personnel costs, and 2.5% to cover increased costs of material, supplies, and other operating expenses. Capital costs will increase at an expected rate of 2.0%.

The solid waste disposal fund revenues are expected to increase by 1.0%. General operating expenses will increase by 5.0% to cover increased personnel costs, operating costs will grow by 2.5%. Indirect costs will grow by 5.0%. There is a new fee of \$50 for those customers wishing to use the City's yard waste collection service.

The storm water management fund will have no rate increase. Over all revenues are expected to increase 3.0%. General operating expenses will increase by 5.0% to cover increased personnel costs, and 2.5% to cover increased costs of operating expenses. There will be no increase in capital costs. The savings will be used to balance the fund without using an appropriation from fund balance.

The transit fund will see an increase in revenues and appropriations of 19.0% over fiscal year 2001-02. This is primarily due to loans and federal and state grants for the expansion of the system, including the purchase of buses and the building of a new transit maintenance facility.

The parking facilities fund will increase charges for current services by 1.0%. Personnel services are expected to grow by 5.0%, operating cost are expected to increase by 2.5%.

The civic center fund expects rental and lease revenue to increase by 3.0%. Personnel services are expected to grow by 5.0%, operating costs are expected to increase by 2.5%.

The ballpark fund expects rental and lease income to grow by 1.0%. Personnel services are expected to grow by 5.0%, operating costs are expected to increase by 3.0%. The ballpark fund receives a transfer from the general fund to pay debt service and to subsidize operating expenses.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, contact the City's Director of Finance on the 4th floor of City Hall, 101 City Hall Plaza, Durham, North Carolina 27701-3329.

Financial Information

The financial statements of the City have been audited by certified public accountants for the fiscal years ended June 30, 2002, 2001 and 2000. Copies of these financial statements containing the unqualified report of the independent certified public accountant are available in the office of Mr. Kenneth C. Pennoyer, Director of Finance, 101 City Hall Plaza, 4th Floor, Durham, North Carolina 27701 (919) 560-4455.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the past seventeen (17) years, including the fiscal year ended June 30, 2001. To receive this award, the highest form of recognition in governmental financial reporting, a governmental unit must publish a financial report which complies with both generally accepted accounting principles and applicable legal requirements. The City believes that the annual financial report for the fiscal year ended June 30, 2002, will continue to meet the requirements under the Certificate of Achievement Program and will submit it to the GFOA for review.

Beginning with the fiscal year ended June 30, 2002, the City was required to prepare its annual audited financial statements under the requirements of the Government Accounting Standards Board Statement 34 (GASB 34). Reporting under GASB 34 creates new information and restructures much of the information that has been presented in the past by units of government in their annual financial reports. GASB 34 is designed to expand the usefulness of governmental financial reports by addressing operational as well as fiscal accountability.

Fund reporting has been retained in the new reporting model but the focus of these reports has changed somewhat. Instead of reporting all funds in the aggregate by fund type, GASB 34 requires that the City report on its most important funds individually as major funds. The General Fund is always a major fund for a unit of government, and other governmental or enterprise funds may qualify as well. Unlike the additional statements discussed below, the basis of accounting for the fund statements has not changed. The only potentially material change at this level of reporting is in the aggregation of funds. In the case of the City, there are no material changes in the presentation of its fund statements.

Budgetary reporting has been retained in the new model, with some modification. In addition to presenting the budget as it stands at fiscal year-end, the City is also required to present the budget as originally adopted by its board. This information will provide readers the opportunity to see what changes have been made to the budget over the course of the fiscal year and to evaluate the City's ability to manage and estimate its resources.

One new reporting requirement set by GASB 34 is the government-wide financial statements. These statements are prepared on the full accrual basis of accounting, which in the past has been used by governments primarily for enterprise activity. Full accrual financial statements show not only current assets and liabilities but also long-term assets and liabilities. These statements also report all revenues and all costs of providing services each year or just after year-end. Specifically, in the government-wide statements, the City is now required to report capital assets and all long-term obligations, for both its governmental-type and business-type activities. As a result, government officials can now demonstrate their stewardship of public funds in the long-term in addition to demonstrating it in the short-term through the budgetary statements.

The following financial statements are the Basic Financial Statements of the City and the notes thereto, lifted from the Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 2002.

CITY OF DURHAM, NORTH CAROLINA

Statement of Net Assets

June 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Current assets			
Cash and cash equivalents/investments	\$ 58,358,668	\$ 72,290,196	\$ 130,648,864
Taxes receivable, net	3,806,616	56,815	3,863,431
Accounts receivable	1,289,157	10,171,845	11,461,002
Assessments receivable	848,591	2,515,137	3,363,728
Accrued investment income	718,401	428,734	1,147,135
Notes receivable	27,994,079	840,200	28,834,279
Due from governmental agencies	11,719,250	2,092,376	13,811,626
Inventories	642,653	507,110	1,149,763
Restricted cash and cash equivalents/ investments	25,147,092	17,313,572	42,460,664
Total current assets	130,524,507	106,215,985	236,740,492
Noncurrent assets:			
Capital assets:			
Land	22,353,098	36,023,771	58,376,869
Construction in progress	14,778,668	15,242,149	30,020,817
Buildings, equipment and depreciable assets	109,760,957	231,957,755	341,718,712
Unbilled assessments receivable	-	212,784	212,784
Restricted cash and cash equivalents/ investments	14,226,871	-	14,226,871
Internal balances	(17,063)	17,063	-
Other noncurrent assets	14,645	60,649	75,294
Total noncurrent assets	161,117,176	283,514,171	444,631,347
Total assets	291,641,683	389,730,156	681,371,839

The notes to the financial statements are an integral part of this statement.

Continued on next page.

CITY OF DURHAM, NORTH CAROLINA

Statement of Net Assets

June 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
LIABILITIES			
Current liabilities			
Accounts payable	\$ 6,184,399	\$ 2,755,927	\$ 8,940,326
Accrued payroll	95,454	4,378	99,832
Employee taxes and related withholdings	2,204,854	-	2,204,854
Accrued interest	3,703,491	12,493,545	16,197,036
Deposits and payments held in escrow	510,769	563,132	1,073,901
Unearned income	1,805,471	125,169	1,930,640
Current portion of due to Durham County	-	523,000	523,000
Current portion of bonds payable	6,331,058	10,924,721	17,255,779
Current portion of due to the State of North Carolina	59,249	1,560,227	1,619,476
Current portion of certificates of participation	8,160,000	1,290,000	9,450,000
Current portion of installment contracts	175,368	-	175,368
Current portion of pending claims	3,233,441	-	3,233,441
Total current liabilities	<u>32,463,554</u>	<u>30,240,099</u>	<u>62,703,653</u>
Noncurrent liabilities			
Minority interest in Civic Center	-	6,513,327	6,513,327
Due to Durham County	-	31,616,493	31,616,493
Bonds	102,041,151	165,294,122	267,335,273
Certificates of participation	45,173,723	13,625,192	58,798,915
Installment contracts	82,647	-	82,647
Due to State of North Carolina	-	10,815,000	10,815,000
Accrued compensated absences	6,879,679	1,004,596	7,884,275
Post closing costs	-	7,758,477	7,758,477
Pending claims	3,140,000	-	3,140,000
Total noncurrent liabilities	<u>157,317,200</u>	<u>236,627,207</u>	<u>393,944,407</u>
Total liabilities	<u>189,780,754</u>	<u>266,867,306</u>	<u>456,648,060</u>
NET ASSETS			
Invested in capital assets	4,969,527	47,574,920	52,544,447
Restricted	41,429,454	17,313,572	58,743,026
Unrestricted	55,461,948	57,974,358	113,436,306
Total net assets	<u>\$ 101,860,929</u>	<u>\$ 122,862,850</u>	<u>\$ 224,723,779</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DURHAM, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2002

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 12,563,069	\$ 26,697	\$ 123,376	\$ 11,370
Public safety	59,361,726	3,214,119	1,572,525	145,000
Development	13,695,429	5,186,363	5,173,282	-
General services	22,568,784	3,175,863	-	-
Parks and recreation	8,332,950	2,622,987	260,798	-
Streets and highways	10,818,417	4,525,018	2,016,680	3,823,119
Interest on long-term debt	8,008,197	-	-	-
Nondepartmental	2,001,504	-	-	-
Total governmental activities	<u>137,350,076</u>	<u>18,751,047</u>	<u>9,146,661</u>	<u>3,979,489</u>
Business-type activities:				
Water and sewer	44,126,403	50,022,886	-	-
Parking facilities	1,993,515	1,353,648	-	-
Transit	11,647,698	6,420,292	-	-
Solid waste disposal	9,842,653	7,637,386	-	-
Civic center	1,736,560	467,453	427,779	126,025
Ballpark	2,046,787	579,486	-	-
Storm water management	4,809,665	5,497,196	-	-
Total business-type activities	<u>76,203,281</u>	<u>71,978,347</u>	<u>427,779</u>	<u>126,025</u>
Total primary government	\$ <u>213,553,357</u>	\$ <u>90,729,394</u>	\$ <u>9,574,440</u>	\$ <u>4,105,514</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for civic center				
Sales taxes				
Intangible taxes				
Hotel/motel and rental vehicle tax				
Cable television franchise fee				
Business licenses and permits				
Grants and contributions not restricted to specific programs				
Unrestricted investment and rental earnings				
Miscellaneous				
Gain on sale or disposal of capital assets				
Transfers				
Total general revenues, special items, and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (12,401,626)		\$ (12,401,626)
(54,430,082)		(54,430,082)
(3,335,784)		(3,335,784)
(19,392,921)		(19,392,921)
(5,449,165)		(5,449,165)
(453,600)		(453,600)
(8,008,197)		(8,008,197)
(2,001,504)		(2,001,504)
<u>(105,472,879)</u>		<u>(105,472,879)</u>
	\$ 5,896,483	5,896,483
	(639,867)	(639,867)
	(5,227,406)	(5,227,406)
	(2,205,267)	(2,205,267)
	(715,303)	(715,303)
	(1,467,301)	(1,467,301)
	687,531	687,531
<u>-</u>	<u>(3,671,130)</u>	<u>(3,671,130)</u>
<u>(105,472,879)</u>	<u>(3,671,130)</u>	<u>(109,144,009)</u>
73,896,587		73,896,587
	1,090,958	1,090,958
23,967,096		23,967,096
1,574,734		1,574,734
1,513,317		1,513,317
1,544,792		1,544,792
1,713,350		1,713,350
5,863,538		5,863,538
4,387,403		4,387,403
341,363		341,363
452,058		452,058
(8,559,747)	8,559,747	-
<u>106,694,491</u>	<u>9,650,705</u>	<u>116,345,196</u>
1,221,612	5,979,575	7,201,187
100,639,317	116,883,275	217,522,592
<u>\$ 101,860,929</u>	<u>\$ 122,862,850</u>	<u>\$ 224,723,779</u>

CITY OF DURHAM, NORTH CAROLINA

Balance Sheet

Governmental Funds

June 30, 2002

	<u>General</u>	<u>Housing Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents/investments	\$ 24,102,720	\$ 3,108,353	\$ 31,147,595	\$ 58,358,668
Receivables, net				
Taxes receivable	3,806,616	-	-	3,806,616
Accounts receivable	1,084,638	-	70,637	1,155,275
Assessments receivable	855,546	-	-	855,546
Accrued investment income	213,481	28,098	192,564	434,143
Notes receivable	<u>474,229</u>	<u>19,564,889</u>	<u>7,954,961</u>	<u>27,994,079</u>
Total receivables	6,434,510	19,592,987	8,218,162	34,245,659
Due from government agencies	1,254,976	23	2,989,892	4,244,891
Advance to other funds	-	-	570,310	570,310
Due from other funds	-	-	960,913	960,913
Inventories	413,653	229,000	-	642,653
Restricted cash and cash equivalents/investments	<u>2,973,301</u>	<u>1,086,745</u>	<u>16,262,344</u>	<u>20,322,390</u>
Total assets	\$ <u><u>35,179,160</u></u>	\$ <u><u>24,017,108</u></u>	\$ <u><u>60,149,216</u></u>	\$ <u><u>119,345,484</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF DURHAM, NORTH CAROLINA

Balance Sheet
 Governmental Funds
 June 30, 2002

	General	Housing Projects	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 2,193,344	\$ 60,380	\$ 3,468,259	\$ 5,721,983
Accrued payroll	74,581	-	20,873	95,454
Employee taxes and related withholdings	2,203,545	-	1,309	2,204,854
Deposits and payments held in escrow	452,695	2,182	55,892	510,769
Pending claims	201,441	-	-	201,441
Deferred income	6,923,691	19,564,889	7,973,131	34,461,711
Advance from other funds	285,155	-	-	285,155
Due to other funds	-	-	960,913	960,913
Total liabilities	<u>12,334,452</u>	<u>19,627,451</u>	<u>12,480,377</u>	<u>44,442,280</u>
Fund balances:				
Reserved for:				
Encumbrances	3,755,336	1,000,139	14,110,218	18,865,693
Certain restricted cash	1,845,337	-	-	1,845,337
Other purposes	21,083	-	1,627,526	1,648,609
State Statute	2,966,748	257,121	4,784,316	8,008,185
Unreserved				
Designated for subsequent year's expenditures	715,000	-	-	715,000
Undesignated	13,541,204	-	-	13,541,204
Unreserved, reported in nonmajor:				
Special revenue funds	-	-	6,387,266	6,387,266
Capital projects funds	-	3,132,397	20,759,513	23,891,910
Total fund balances	<u>22,844,708</u>	<u>4,389,657</u>	<u>47,668,839</u>	<u>74,903,204</u>
Total liabilities and fund balances	\$ <u>35,179,160</u>	\$ <u>24,017,108</u>	\$ <u>60,149,216</u>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in funds.	146,892,723
Other net assets that are not available to pay for current-period expenditures and therefore are deferred in the funds	39,421,384
Internal service funds are used by management to charge the costs of risk retention to individual funds. The assets and liabilities of the risk retention fund are included in governmental activities in the statement of net assets.	(6,874,718)
Accrued interest payable on long-term debt	(3,678,789)
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note G).	(148,802,875)

Net assets of governmental activities \$ 101,860,929

CITY OF DURHAM, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2002

	General	Housing Projects Fund	Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
REVENUES				
Taxes	\$ 100,353,319	\$ -	\$ 951,108	\$ 101,304,427
Licenses and permits	6,846,021	-	-	6,846,021
Intergovernmental revenues	12,900,986	-	6,062,813	18,963,799
Investment and rental income	2,141,945	310,279	1,590,081	4,042,305
Charges for services	7,802,090	-	2,847,342	10,649,432
Intragovernmental services	711,930	-	-	711,930
Assessments	363,424	-	-	363,424
Sale of property and miscellaneous	1,409,037	1,450,272	745,365	3,604,674
Total revenues	<u>132,528,752</u>	<u>1,760,551</u>	<u>12,196,709</u>	<u>146,486,012</u>
EXPENDITURES				
Current				
General government	11,442,585	-	232,614	11,675,199
Public safety	52,561,659	-	4,479,475	57,041,134
Development	8,348,189	1,534,454	6,103,414	15,986,057
General services	20,876,638	-	2,651,980	23,528,618
Recreation	7,204,370	-	3,502,780	10,707,150
Streets and highways	9,456,418	-	6,801,540	16,257,958
Non-departmental charges	5,238,096	-	-	5,238,096
Debt service				
Principal	8,603,164	-	-	8,603,164
Interest and other charges	5,659,375	-	-	5,659,375
Total expenditures	<u>129,390,494</u>	<u>1,534,454</u>	<u>23,771,803</u>	<u>154,696,751</u>
Excess (deficiency) of revenues over expenditures	3,138,258	226,097	(11,575,094)	(8,210,739)
OTHER FINANCING SOURCES (USE)				
Capital related debt issued	2,398,431	1,239,000	37,932,569	41,570,000
Transfers in	301,944	-	5,884,042	6,185,986
Transfers out	(10,303,548)	(963,797)	(3,674,326)	(14,941,671)
Total other financing sources (use)	<u>(7,603,173)</u>	<u>275,203</u>	<u>40,142,285</u>	<u>32,814,315</u>
Net change in fund balances	<u>(4,464,915)</u>	<u>501,300</u>	<u>28,567,191</u>	<u>24,603,576</u>
Fund balances - beginning	27,611,698	3,663,830	18,722,027	49,997,555
Restatement	(302,075)	224,527	379,621	302,073
Fund balances - beginning as restated	<u>27,309,623</u>	<u>3,888,357</u>	<u>19,101,648</u>	<u>50,299,628</u>
Fund balances - ending	<u>\$ 22,844,708</u>	<u>\$ 4,389,657</u>	<u>\$ 47,668,839</u>	<u>\$ 74,903,204</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DURHAM, NORTH CAROLINA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental

Funds to the Statement of Activities

For the Year Ended June 30, 2002

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds (Exhibit 4)	\$	24,603,576
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimate useful lives and reported as depreciation expense.

Capital outlay	17,791,960
Depreciation	(8,839,040)

The net affect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.	57,320
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.	(1,183,527)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issued	(41,570,000)
Debt principal repaid	8,603,164
The effect of issuance costs, premiums, discounts, and similar items.	(1,935,730)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	1,173,854
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An internal service fund is used by management to charge the cost of risk retention to individual funds. The net revenue of certain activities of the risk retention fund is reported with governmental activities.

2,520,035

Change in net assets of governmental activities (Exhibit 2)	\$	<u>1,221,612</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF DURHAM, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 General Fund
 For the Year Ended June 30, 2002

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
Revenues				
Taxes	\$ 103,959,176	\$ 103,959,176	\$ 100,353,319	\$ (3,605,857)
Licenses and permits	5,892,609	5,892,609	6,846,021	953,412
Intergovernmental revenues	18,056,695	17,956,695	12,900,986	(5,055,709)
Investment and rental income	2,645,251	2,645,251	2,141,945	(503,306)
Charges for services	9,042,447	9,042,447	7,802,090	(1,240,357)
Intragovernmental services	865,500	865,500	711,930	(153,570)
Assessments	75,000	75,000	363,424	288,424
Sale of property and miscellaneous	3,590,521	3,707,719	1,409,037	(2,298,682)
Total revenues	144,127,199	144,144,397	132,528,752	(11,615,645)
Expenditures				
Governance	4,872,809	5,231,800	4,178,669	1,053,131
Public protection	54,059,150	55,169,688	52,046,440	3,123,248
Community services and development	50,618,019	53,346,400	46,069,735	7,276,665
Administrative and support services	10,374,060	10,584,839	7,142,857	3,441,982
Cemetery operations	532,126	597,338	493,602	103,736
Non-departmental charges	5,642,339	5,791,388	5,196,652	594,736
Debt service				
Principal retirement	9,947,351	10,128,139	8,603,164	1,524,975
Interest and fiscal charges	6,114,190	6,140,562	5,659,375	481,187
Total expenditures	142,160,044	146,990,154	129,390,494	17,599,660
Excess of revenues over expenditures	1,967,155	(2,845,757)	3,138,258	5,984,015
Other financing sources (uses)				
Transfers in	\$ 5,584,174	\$ 7,566,274	\$ 301,944	\$ (7,264,330)
Bond proceeds	75,000	75,000	-	(75,000)
Transfers out	(11,465,529)	(11,633,028)	(10,303,548)	1,329,480
Installment sales	-	80,894	2,398,431	2,317,537
Certificates of participation	1,432,950	1,432,950	-	(1,432,950)
Transfer from reserves	-	4,030,593	-	(4,030,593)
Appropriated to fund balance	-	(1,905,100)	-	1,905,100
Appropriated fund balance	2,406,250	3,198,174	-	(3,198,174)
Total other financing sources (uses)	(1,967,155)	2,845,757	(7,603,173)	(10,448,930)
Excess of expenditures and other financing use over revenues and other financing sources	\$ -	\$ -	(4,464,915)	\$ (4,464,915)
Fund balance - beginning			27,611,698	
Restatement of interfund payables			(302,075)	
Fund balance, beginning as restated			27,309,623	
Fund balance - ending			\$ 22,844,708	

The notes to the financial statements are an integral part of this statement.

CITY OF DURHAM, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance - Compared with Authorizations
Housing Projects Fund
From Project Inception through the Year Ended June 30, 2002

	<u>Authorizations</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Investment and rental income	\$ 38,576	\$ 539,076	\$ 310,279	\$ 849,355
Repayment of loans and notes	11,687,165	7,976,479	1,357,275	9,333,755
Other income	<u>275,009</u>	<u>727,293</u>	<u>92,997</u>	<u>820,290</u>
Total revenues	12,000,750	9,242,848	1,760,551	11,003,399
Expenditures				
Housing projects activity	<u>45,506,090</u>	<u>27,369,110</u>	<u>1,534,454</u>	<u>28,903,564</u>
(Deficiency) of revenues over expenditures	(33,505,340)	(18,126,262)	226,097	(17,900,165)
Other financing source and use				
Bonds issued	35,000,000	22,475,000	1,239,000	23,714,000
Transfers to other funds	<u>(1,494,660)</u>	<u>(460,382)</u>	<u>(963,797)</u>	<u>(1,424,179)</u>
	<u>33,505,340</u>	<u>22,014,618</u>	<u>275,203</u>	<u>22,289,821</u>
(Deficiency) of revenues and other financing source over expenditures and other financing use	\$ <u>-</u>	\$ <u>3,888,356</u>	<u>501,300</u>	\$ <u>4,389,656</u>
Fund balance - beginning			3,663,830	
Restated for prior year interfund transfers			<u>224,527</u>	
Fund balance - beginning as restated			<u>3,888,357</u>	
Fund balance - ending			\$ <u>4,389,657</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF DURHAM, NORTH CAROLINA

Statement of Net Assets

Proprietary Funds

June 30, 2002

	Water and Sewer Utility Fund	Parking Facilities Fund	Transit Fund
ASSETS			
Current assets			
Cash and cash equivalents/investments	\$ 65,109,972	\$ 410,638	\$ 986,342
Taxes receivable, net	-	-	-
Accounts receivable	8,337,293	93,346	-
Assessments receivable	2,509,983	-	-
Accrued investment income	368,907	4,999	19,813
Notes receivable	840,200	-	-
Due from governmental agencies	858,937	6,811	1,134,853
Inventories	506,952	-	158
Due from other funds	3,913,615	-	-
Restricted cash and cash equivalents/ investments	16,244,731	-	-
Total current assets	98,690,590	515,794	2,141,166
Noncurrent assets:			
Capital Assets:			
Land	19,634,485	2,530,990	1,857,000
Construction in progress	14,328,371	-	706,038
Buildings, equipment and depreciable assets	384,015,775	13,002,170	13,433,394
Less accumulated depreciation	(189,688,166)	(7,550,132)	(7,864,924)
Unbilled assessments receivable	212,784	-	-
Restricted cash and cash equivalents/ investments	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	228,503,249	7,983,028	8,131,508
Total assets	327,193,839	8,498,822	10,272,674

The notes to the financial statements are an integral part of this statement.

Enterprise Funds					Internal Service Fund
Solid Waste Disposal Fund	Civic Center Fund	Ballpark Fund	Storm Water Management Fund	Total	Risk Retention Fund
\$ 1,632,564	\$ 318,444	\$ -	\$ 3,832,236	\$ 72,290,196	\$ -
-	56,815	-	-	56,815	-
398,999	61,552	22,986	1,257,669	10,171,845	133,882
-	-	-	5,154	2,515,137	-
9,145	3,546	-	22,324	428,734	284,258
-	-	-	-	840,200	-
18,591	46,225	4,098	22,861	2,092,376	-
-	-	-	-	507,110	-
-	-	-	-	3,913,615	-
1,068,511	-	330	-	17,313,572	4,824,702
3,127,810	486,582	27,414	5,140,244	110,129,600	5,242,842
8,433,374	1,849,180	1,718,742	-	36,023,771	-
207,740	-	-	-	15,242,149	-
9,211,151	14,185,683	14,558,826	2,584,689	450,991,688	-
(2,373,562)	(6,796,364)	(3,832,648)	(928,137)	(219,033,933)	-
-	-	-	-	212,784	-
-	-	-	-	-	14,226,871
-	-	60,649	-	60,649	14,645
15,478,703	9,238,499	12,505,569	1,656,552	283,497,108	14,241,516
18,606,513	9,725,081	12,532,983	6,796,796	393,626,708	19,484,358

Continued on next page.

CITY OF DURHAM, NORTH CAROLINA

Statement of Net Assets

Proprietary Funds

June 30, 2002

	Water and Sewer Utility Fund	Parking Facilities Fund	Transit Fund
LIABILITIES			
Current liabilities			
Accounts payable	\$ 1,573,840	\$ 16,988	\$ 831,928
Accrued payroll	1,240	3,138	-
Accrued interest	11,666,968	80,093	4,048
Deposits and payments held in escrow	523,377	8,755	-
Deferred income	177	68,177	-
Current portion of due to Durham County	523,000	-	-
Current portion of bonds payable	8,376,454	-	53,063
Current portion of due to the State of North Carolina	1,560,227	-	-
Current portion of certificates of participation	-	675,000	-
Current portion of pending claims	-	-	-
Total current liabilities	<u>24,225,283</u>	<u>852,151</u>	<u>889,039</u>
Noncurrent liabilities			
Minority interest in Civic Center	-	-	-
Due to Durham County	31,616,493	-	-
Bonds	132,912,782	-	374,307
Certificates of participation	-	6,425,176	-
Due to State of North Carolina	10,815,000	-	-
Accrued compensated absences	806,363	17,900	18,593
Due to other funds	-	-	-
Post closing costs	-	-	-
Pending claims	-	-	-
Total noncurrent liabilities	<u>176,150,638</u>	<u>6,443,076</u>	<u>392,900</u>
Total liabilities	<u>200,375,921</u>	<u>7,295,227</u>	<u>1,281,939</u>
NET ASSETS			
Invested in capital assets	42,486,509	882,852	7,704,138
Unrestricted (deficit)	84,331,409	320,743	1,286,597
Total net assets	<u>\$ 126,817,918</u>	<u>\$ 1,203,595</u>	<u>\$ 8,990,735</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Net assets business-type activities

The notes to the financial statements are an integral part of this statement.

Enterprise Funds					Internal Service Fund
Solid Waste Disposal Fund	Civic Center Fund	Ballpark Fund	Storm Water Management Fund	Total	Risk Retention Fund
\$ 182,790	\$ 44,157	\$ 67,884	\$ 38,340	\$ 2,755,927	\$ 62,374
-	-	-	-	4,378	-
503,000	76,418	163,018	-	12,493,545	24,702
-	-	-	31,000	563,132	-
-	56,815	-	-	125,169	-
-	-	-	-	523,000	-
1,557,474	937,730	-	-	10,924,721	-
-	-	-	-	1,560,227	-
-	-	615,000	-	1,290,000	4,800,000
-	-	-	-	-	3,280,389
<u>2,243,264</u>	<u>1,115,120</u>	<u>845,902</u>	<u>69,340</u>	<u>30,240,099</u>	<u>8,167,465</u>
-	6,513,327	-	-	6,513,327	-
-	-	-	-	31,616,493	-
29,707,730	2,299,303	-	-	165,294,122	-
-	-	7,200,016	-	13,625,192	15,300,000
-	-	-	-	10,815,000	-
15,936	-	22,934	122,870	1,004,596	-
-	-	4,198,770	-	4,198,770	-
7,758,477	-	-	-	7,758,477	-
-	-	-	-	-	2,891,611
<u>37,482,143</u>	<u>8,812,630</u>	<u>11,421,720</u>	<u>122,870</u>	<u>240,825,977</u>	<u>18,191,611</u>
<u>39,725,407</u>	<u>9,927,750</u>	<u>12,267,622</u>	<u>192,210</u>	<u>271,066,076</u>	<u>26,359,076</u>
(15,786,501)	6,001,466	4,629,904	1,656,552	47,574,920	-
(5,332,393)	(6,204,135)	(4,364,543)	4,948,034	74,985,712	(6,874,718)
<u>\$ (21,118,894)</u>	<u>\$ (202,669)</u>	<u>\$ 265,361</u>	<u>\$ 6,604,586</u>	<u>122,560,632</u>	<u>\$ (6,874,718)</u>
				<u>302,218</u>	
				<u>\$ 122,862,850</u>	

CITY OF DURHAM, NORTH CAROLINA

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2002

	Enterprise			
	Water and Sewer Fund	Parking Facilities Fund	Transit Fund	Solid Waste Disposal Fund
Operating revenues				
Charges for services	\$ 42,836,032	\$ 1,318,717	\$ 1,787,289	\$ 7,695,532
Operating expenses				
Personal services	13,668,232	607,805	426,760	232,358
Materials, services and supplies	11,425,197	555,295	1,727,345	6,586,994
General and administrative	3,410,972	79,539	425,556	134,685
Claims, fees and other	-	-	-	-
Post closing costs	-	-	-	(121,871)
Transit services	-	-	8,050,206	-
Construction administration, engineering and repairs	-	-	-	4,713
Depreciation	6,920,481	377,368	999,440	1,536,853
Total operating expenses	35,424,882	1,620,007	11,629,307	8,373,732
Operating income (loss)	7,411,150	(301,290)	(9,842,018)	(678,200)
Nonoperating revenues (expenses)				
Minority interest in Civic Center	-	-	-	-
Taxes	-	-	-	-
Intergovernmental revenue	-	-	-	-
Operating grants	-	-	3,484,633	-
Investment income	3,377,699	36,525	141,224	95,519
Interest on assessments	46,869	-	-	-
Licenses and permits	33,000	-	664,710	-
Rent - nonoperating property	90,817	-	-	8,410
Impact fees	3,342,893	-	-	-
Gain (loss) on disposals of capital assets	149,190	(1,774)	(7,015)	(250,066)
Other revenue	146,386	180	349,451	87,991
Interest and fiscal charges	(8,948,176)	(373,508)	(18,391)	(1,503,875)
Total nonoperating revenues (expenses)	(1,761,322)	(338,577)	4,614,612	(1,562,021)
Income/(loss) before transfers	\$ 5,649,828	\$ (639,867)	\$ (5,227,406)	\$ (2,240,221)

The notes to the financial statements are an integral part of this statement.

Funds				Internal Service Fund
Civic Center Fund	Ballpark Fund	Storm Water Management Fund	Totals	Risk Retention Fund
\$ 408,343	\$ 346,517	\$ 5,250,766	\$ 59,643,196	\$ 4,210,043
12,419	232,139	2,419,402	17,599,115	-
1,157,053	692,196	1,387,093	23,531,173	482,159
67,177	97,318	710,378	4,925,625	-
-	-	-	-	2,420,831
-	-	-	(121,871)	-
-	-	-	8,050,206	-
-	-	-	4,713	-
284,158	377,445	313,401	10,809,146	-
1,520,807	1,399,098	4,830,274	64,798,107	2,902,990
(1,112,464)	(1,052,581)	420,492	(5,154,911)	1,307,053
126,025	-	-	126,025	-
1,090,958	-	-	1,090,958	-
427,779	-	-	427,779	-
-	-	-	3,484,633	-
25,278	483	158,839	3,835,567	1,762,543
-	-	-	46,869	-
-	-	-	697,710	-
33,832	235,083	-	368,142	-
-	-	-	3,342,893	-
-	(2,597)	(950)	(113,212)	-
-	-	88,541	672,549	-
(215,753)	(647,689)	-	(11,707,392)	(452,364)
1,488,119	(414,720)	246,430	2,272,521	1,310,179
\$ 375,655	\$ (1,467,301)	\$ 666,922	\$ (2,882,390)	\$ 2,617,232

Continued on next page.

CITY OF DURHAM, NORTH CAROLINA

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2002

	Enterprise			
	Water and Sewer Fund	Parking Facilities Fund	Transit Fund	Solid Waste Disposal Fund
Transfers				
Transfers from other funds	\$ 439,298	\$ 981,104	\$ 4,780,989	\$ 1,326,555
Transfers to other funds	<u>(331,355)</u>	<u>-</u>	<u>-</u>	<u>(984)</u>
Total transfers	<u>107,943</u>	<u>981,104</u>	<u>4,780,989</u>	<u>1,325,571</u>
Change in net assets	<u>5,757,771</u>	<u>341,237</u>	<u>(446,417)</u>	<u>(914,650)</u>
Total net assets - beginning	<u>117,441,901</u>	<u>862,358</u>	<u>9,437,152</u>	<u>(19,673,955)</u>
Restatement	<u>3,618,246</u>	<u>-</u>	<u>-</u>	<u>(530,289)</u>
Total net assets - beginning as restated	<u>121,060,147</u>	<u>862,358</u>	<u>9,437,152</u>	<u>(20,204,244)</u>
Total net assets - ending	<u><u>\$ 126,817,918</u></u>	<u><u>\$ 1,203,595</u></u>	<u><u>\$ 8,990,735</u></u>	<u><u>\$ (21,118,894)</u></u>

The notes to the financial statements are an integral part of this statement.

Funds				Internal Service Fund
Civic Center Fund	Ballpark Fund	Storm Water Management Fund	Totals	Risk Retention Fund
\$ -	\$ 1,833,331	\$ 279	\$ 9,361,556	\$ 205,021
-	-	(469,470)	(801,809)	-
-	1,833,331	(469,191)	8,559,747	205,021
375,655	366,030	197,731	5,677,357	2,822,253
(578,324)	3,819,626	6,406,855	117,715,613	(9,696,971)
-	(3,920,295)	-	(832,338)	-
(578,324)	(100,669)	6,406,855	116,883,275	(9,696,971)
\$ (202,669)	\$ 265,361	\$ 6,604,586	122,560,632	\$ (6,874,718)

Adjustment to reflect the consolidation of internal
service fund activities related to enterprise funds.

Net assets business-type activities

302,218
\$ 122,862,850

CITY OF DURHAM, NORTH CAROLINA

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2002

	Water and Sewer Fund	Parking Facilities Fund	Transit Fund
Cash flows from operating activities:			
Receipts from customers	\$ 42,820,482	\$ 1,310,435	\$ 1,806,074
Payments to employees	(13,613,536)	(612,677)	(965,220)
Payments to suppliers	(15,385,501)	(672,592)	(10,388,560)
Payments for claims and related professional fees	-	-	-
Reimbursements from other governments	(536,642)	9	667,920
Customer deposits	15,787	1,955	-
Impact fees	3,342,893	-	-
Interest on assessments	46,869	-	-
Notes receivable	70,686	-	-
Other revenues	237,203	180	349,451
Net cash provided by (used for) operating activities	16,998,241	27,310	(8,530,335)
Cash flows from noncapital financing activities:			
Transfers to other funds	(331,355)	-	-
Transfers from other funds	429,510	981,104	4,780,989
Taxes received, net	-	-	-
Licenses and fees	33,000	-	664,710
Grant funds received	-	-	3,484,633
Contribution from Durham County	-	-	-
Advance from other funds	-	-	-
Repayment of advance from other funds	-	-	-
Advance to other funds	(482,171)	-	-
Repayment of advance to other funds	4,217,216	-	-
Net cash provided by (used for) noncapital financing activities	3,866,200	981,104	8,930,332

The notes to the financial statements are an integral part of this statement.

Enterprise Funds					Internal Service Fund
Solid Waste Disposal Fund	Civic Center Fund	Ballpark Fund	Storm Water Management Fund	Totals	Risk Retention Fund
\$ 7,902,316	\$ 380,763	\$ 367,130	\$ 5,206,171	\$ 59,793,371	\$ 4,210,043
(227,737)	(12,423)	(226,863)	(2,368,394)	(18,026,850)	-
(7,972,132)	(1,196,575)	(730,023)	(2,316,318)	(38,661,701)	(552,888)
-	-	-	-	-	(3,009,962)
50,586	(39,773)	(1,453)	(4,468)	136,179	-
-	-	-	-	17,742	-
-	-	-	-	3,342,893	-
-	-	-	-	46,869	-
-	-	-	-	70,686	-
96,401	33,832	235,083	88,541	1,040,691	-
(150,566)	(834,176)	(356,126)	605,532	7,759,880	647,193
-	-	-	(469,470)	(800,825)	205,021
1,326,555	-	1,833,331	-	9,351,489	-
-	1,086,413	-	-	1,086,413	-
-	-	-	-	697,710	-
-	-	-	-	3,484,633	-
-	427,779	-	-	427,779	-
-	-	482,171	-	482,171	-
-	-	(594,241)	-	(594,241)	-
-	-	-	-	(482,171)	-
-	-	-	-	4,217,216	-
1,326,555	1,514,192	1,721,261	(469,470)	17,870,174	205,021

Continued on next page.

CITY OF DURHAM, NORTH CAROLINA

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2002

	Water and Sewer Fund	Parking Facilities Fund	Transit Fund
Cash flows from capital and related financing activities:			
Interest and agent's fees paid	\$ (8,119,867)	\$ (329,978)	\$ (24,589)
Call premium on refunding	-	(155,200)	-
Bonds issued	22,000,000	-	-
Certificates of participation refunding	-	8,000,000	-
Repayment of interfund loans	186,778	-	-
Payments of principal:			
Bonds	(8,319,435)	-	(53,063)
Certificates of participation	-	(8,550,000)	-
Payments of principal - interfund loans	-	-	-
Loans from the State of North Carolina	2,700,000	-	-
Repayments to the State of North Carolina	(750,000)	-	-
Payments of principal - Durham County	(192,000)	-	-
Acquisition and construction of capital assets	(8,436,324)	(13,502)	(630,557)
Assessments and frontage	395,146	-	-
Minority interest	-	-	-
Disposal of property and equipment	215,248	-	1,884
Net cash (used for) capital and related financing activities:	<u>(320,454)</u>	<u>(1,048,680)</u>	<u>(706,325)</u>
Cash flows from investing activities:			
Interest on investments	3,342,198	33,573	134,284
Net cash provided by investing activities	<u>3,342,198</u>	<u>33,573</u>	<u>134,284</u>
Net increase (decrease) in cash and cash equivalents/investments	23,886,185	(6,693)	(172,044)
Cash and cash equivalents/investments, beginning of year	<u>57,468,518</u>	<u>417,331</u>	<u>1,158,386</u>
Cash and cash equivalents/investments, end of year	<u>\$ 81,354,703</u>	<u>\$ 410,638</u>	<u>\$ 986,342</u>

The notes to the financial statements are an integral part of this statement.

Enterprise Funds					Internal Service Fund
Solid Waste Disposal Fund	Civic Center Fund	Ballpark Fund	Storm Water Management Fund	Totals	Risk Retention Fund
\$ (1,490,946)	\$ (238,860)	\$ (576,602)	\$ -	\$ (10,780,842)	\$ (481,648)
-	-	-	-	(155,200)	-
-	-	-	-	22,000,000	-
-	-	-	-	8,000,000	-
-	-	-	-	186,778	-
(1,546,159)	(949,481)	-	-	(10,868,138)	-
-	-	(585,000)	-	(9,135,000)	(11,000,000)
-	-	(203,697)	-	(203,697)	-
-	-	-	-	2,700,000	-
-	-	-	-	(750,000)	-
-	-	-	-	(192,000)	-
(400,540)	(86,362)	-	(497,810)	(10,065,095)	-
-	-	-	1,981	397,127	-
-	383,380	-	-	383,380	-
-	-	-	-	217,132	-
(3,437,645)	(891,323)	(1,365,299)	(495,829)	(8,265,555)	(11,481,648)
97,548	24,361	494	160,110	3,792,568	1,809,287
97,548	24,361	494	160,110	3,792,568	1,809,287
(2,164,108)	(186,946)	330	(199,657)	21,157,067	(8,820,147)
4,865,183	505,390	-	4,031,893	68,446,701	27,871,720
\$ <u>2,701,075</u>	\$ <u>318,444</u>	\$ <u>330</u>	\$ <u>3,832,236</u>	\$ <u>89,603,768</u>	\$ <u>19,051,573</u>

Continued on next page.

CITY OF DURHAM, NORTH CAROLINA

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2002

	Water and Sewer Fund	Parking Facilities Fund	Transit Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 7,411,174	\$ (301,290)	\$ (9,842,018)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	6,920,481	377,368	999,440
Other revenues	146,386	180	349,451
Rent - nonoperating property	90,817	-	-
Interest on assessments	46,869	-	-
Impact fees	3,342,893	-	-
Changes in assets and liabilities:			
Receivables	(15,751)	(17,133)	18,785
Allowance for doubtful accounts	-	(13,237)	-
Notes receivable	70,686	-	-
Due from governmental agencies	(536,642)	9	667,920
Inventories	3,574	-	(158)
Prepaid expenses	-	-	59,993
Unamortized issue costs	14,520	12,203	-
Accounts payable	(567,426)	(36,724)	(245,288)
Accrued payroll	(399)	168	(538,846)
Accrued compensated absences	55,095	(5,040)	386
Post closing costs	-	-	-
Customer deposits	15,787	1,955	-
Pending claims	-	-	-
Deferred income	177	8,851	-
Net cash provided by operating activities	\$ <u>16,998,241</u>	\$ <u>27,310</u>	\$ <u>(8,530,335)</u>
Noncash capital financing activities:			
Transfers of capital assets	\$ 116,107	\$ -	\$ -

The notes to the financial statements are an integral part of this statement.

Enterprise Funds					Internal Service Fund
Solid Waste Disposal Fund	Civic Center Fund	Ballpark Fund	Storm Water Management Fund	Totals	Risk Retention Fund
\$ 271,036	\$ (1,112,464)	\$ (1,052,581)	\$ 420,492	\$ (4,205,651)	\$ 1,307,053
587,617	284,158	377,445	313,401	9,859,910	-
87,991	-	-	88,541	672,549	-
8,410	33,832	235,083	-	368,142	-
-	-	-	-	46,869	-
-	-	-	-	3,342,893	-
206,784	(32,125)	20,613	(44,595)	136,578	134,827
-	-	-	-	(13,237)	-
-	-	-	-	70,686	-
50,586	(39,773)	(1,453)	(4,468)	136,179	106
-	-	-	-	3,416	-
-	-	-	-	59,993	-
-	-	-	-	26,723	-
(1,245,740)	27,655	59,491	(218,847)	(2,226,879)	(70,835)
-	-	-	-	(539,077)	-
4,621	(4)	5,276	51,008	111,342	-
(121,871)	-	-	-	(121,871)	-
-	-	-	-	17,742	-
-	-	-	-	-	(723,958)
-	4,545	-	-	13,573	-
\$ <u>(150,566)</u>	\$ <u>(834,176)</u>	\$ <u>(356,126)</u>	\$ <u>605,532</u>	\$ <u>7,759,880</u>	\$ <u>647,193</u>
\$ 950,325	\$ -	\$ -	\$ 279	\$ 1,066,711	\$ -

CITY OF DURHAM, NORTH CAROLINA

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2002

		Law Enforcement Officers' Separation <u>Allowance</u>
ASSETS		
Cash and cash equivalents/investments	\$	2,577,631
Accrued investment income		<u>14,427</u>
Total assets		<u>2,592,058</u>
NET ASSETS		
Held in trust for pension benefits	\$	<u>2,592,058</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DURHAM, NORTH CAROLINA

Statement of Changes in Fiduciary Net Assets

Fiduciary Fund

For the Year Ended

June 30, 2002

		Law Enforcement Officers' Separation Allowance
		<u> </u>
ADDITIONS		
Employer contributions	\$	668,789
Investment earnings		<u>102,833</u>
Total additions		<u>771,622</u>
DEDUCTIONS		
Benefits		577,465
Administrative expenses		<u>826</u>
Total deductions		<u>578,291</u>
Change in net assets		193,331
Net assets - beginning of year		<u>2,398,727</u>
Net assets - end of year	\$	<u><u>2,592,058</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF DURHAM, NORTH CAROLINA

Notes to the Combined Financial Statements
Year Ended June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Durham have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below. In June 1999, the GASB unanimously approved "Basic Financial Statement and Management Discussion and Analysis" for State and Local Governments (Statement #34). This statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on the size of government) starting with fiscal years ending 2002 (for larger governments). As part of this statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc...) which is required to be included by fiscal year ending 2006.

A. Reporting Entity

The City of Durham is a municipal corporation governed by an elected mayor and a six-member council. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial operations with the City.

B. Blended Component Units

The Durham Risk Management Corporation ("DRM"), PO Box 51579, Durham, North Carolina 27717-1579, is a nonprofit corporation duly incorporated in the State, and validly existing and in good standing under the North Carolina Nonprofit Corporation Act, Chapter 55A of the General Statutes of North Carolina. Although legally separate from the City, DRM is reported as if it were part of the primary government because its sole purpose is to assist the City in carrying out its municipal and governmental functions through the provision of risk management and the administration of claims and is not engaged in any other activity and has no taxing power. All DRM activities are included in the Risk Retention Fund, which is an Internal Service Fund.

The New Durham Corporation ("NDC"), 3100 Tower Boulevard, Suite 1200 University Tower, Durham, N.C. 27717, is governed by a five-member board of directors. Although legally separate from the City, the NDC is reported as if it were a part of the primary government because its purpose is to finance City revitalization projects and purchases of capital equipment. All NDC activities are included in the funds in which the activity takes place.

C. Basis of Presentation

i. Government-wide Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information on all the non-fiduciary activities of the primary government and its blended component units. Eliminations have been made to minimize the double counting of internal activities.

These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include fees and charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

ii. Fund Financial Statements

The fund financial statements provide information about the City's funds. There are separate statements for each fund category; governmental, proprietary and fiduciary are presented, even though the latter are excluded from the government wide financial statements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds. Although only the Water and Sewer, Solid Waste and Transit Funds meet the criteria for major funds, the City has elected to report all enterprise funds as major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Housing Projects Fund - This fund is established to track the City of Durham's affordable housing program. The projects included in this program are designed to assist and finance the rehabilitation of buildings and to assist in acquiring land for redevelopment, principally for the housing of persons of low and moderate income.

The City reports the following major enterprise funds:

Ballpark Fund - This fund is established to account for revenues and expenses related to the operation of the Durham Bulls Athletic Park in downtown Durham.

Civic Center Fund - This fund is established to account for revenues and expenses related to the operation of the Civic Center in downtown Durham.

Parking Facilities Fund - This fund is established to account for revenues and expenses related to the operations of the City's parking lots and garages.

Storm Water Management Fund - This fund is established to account for revenues and expenses related to storm water management including developing, monitoring, and inspection protocols and prioritization of drainage and flooding problems to initiate repair.

Solid Waste Disposal Fund - This fund is established to account for revenues and expenses related to the collection of solid waste and operation of the transfer station by the City for the use of residents of the City and Durham County.

Transit Fund - This fund is established to account for revenues and expenses related to the operation of the bus system, which serves the City of Durham.

Water and Sewer Fund - This fund is established to account for revenues and expenses related to the provision of water and sewer services to the residents of the City and adjacent areas.

D. Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The government-wide financial statements, proprietary funds and pension trust fund are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The accrual basis of accounting is followed, revenues are recognized in these funds when earned, and expenses are recognized when they are incurred. As permitted by accounting principles generally accepted in the United States of America, the City has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989, in its accounting and reporting practices for the government wide financial statements, the proprietary fund financial statements and the pension trust fund.

The City follows the modified accrual basis of accounting for all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

The City recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has risen, or when the eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Non-exchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures

recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with the prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Those revenues susceptible to accrual are intangibles tax reimbursement and investment income.

Licenses, charges for services and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

E. Budgetary Data

The General Statutes of North Carolina require that the City adopt an annual balanced budget. The General Statutes also provide for balanced project ordinances for the life of projects, including both capital and grant activities, which are expected to extend beyond the end of the fiscal year.

The City Manager has the authority to transfer budgeted amounts between departments within any category; however, any revisions that alter the total appropriations of any function or fund must be approved by the City Council.

Budgetary control on expenditures and encumbrances is limited to departmental totals and project totals as specified in the budget ordinances.

The City Council officially adopts the annual budget ordinance prior to July 1 of each year and adopts project ordinances as necessary. The Council has the authority to amend such ordinances. The annual budget ordinance is prepared using the modified accrual basis of accounting. The General Fund officially adopts an annual budget, which is included in the combined statement of revenues, expenditures and changes in fund balances-actual and budget. Although General Statutes and generally accepted accounting principles do not require an annual balanced budget for enterprise funds. The Water and Sewer, the Parking Facilities Fund, the Transit, the Solid Waste Disposal Fund, the Civic Center Fund, the Ballpark Fund, and the Storm Water Management Fund do have legally adopted balanced annual budgets.

During the fiscal year, there were 11 amendments for budgeted operating funds totaling \$14,543,678 approved by the City Council as follows:

General Fund	6,902,709
Water and Sewer Fund	3,574,725
Solid Waste Disposal Fund	952,553
Storm Water Fund	2,188,296
Parking Facilities Fund	99,720
Transit Fund	597,511
Civic Center Fund	49,527
Ball Park Fund	62,758
Transit Trust Fund	115,879
	<u>\$ 14,543,678</u>

Appropriations, unencumbered and unauthorized for carry forward, lapse at each fiscal year-end. Appropriations for outstanding encumbrances and carry forwards are re-appropriated through the budgetary process.

Budgeted amounts in the accompanying statements are as originally adopted, as amended by the City Council, or as changed by approved transfer.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance. Funds to cover outstanding encumbrances are re-appropriated through the budgetary process. Encumbrances do not constitute expenditures or liabilities.

F. Assets, Liabilities and Fund Equity

i. Deposits and Investments

All deposits of the City are made in designated official depositories and are secured as required by State law [G.S. 159-31]. The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and money market accounts, and certificates of deposit. The Local Government Budget and Fiscal Control Act of North Carolina governs all investments permitted to local governments. General Statutes authorize the City to invest in obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed by the United States; certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, an SEC registered mutual fund. Pooled cash and investments are maintained and used by all funds. Investments are reported at fair value as determined by quoted market prices. Interest earned is distributed to the various funds based on each fund's proportionate equity in pooled cash and investments.

ii. Cash and Cash Equivalents

Pooled cash and investments are maintained and used by all funds. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The city considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

iii. Restricted Assets

Certain investments are classified as restricted assets on the balance sheet and they are maintained in separate bank accounts. The unexpended proceeds from revenue bonds in the Water and Sewer Utility Fund, the unexpended proceeds from certificates of participation agreements and revenue bonds in the General Fund, and the unexpended proceeds from certificates of participation agreements in the Risk Retention Fund are classified as restricted assets because their use is restricted for the purposes for which the revenue bonds and certificates of participation agreements were originally issued.

iv. Property Taxes

The Durham County Tax Administrator acts as agent for the City in listing, assessing and collecting all taxes related to real and personal property located in the City. Taxes are levied on property assessed at 100% of the estimated actual value as of the year of revaluation. The City's tax rate may not exceed \$1.50 per \$100 assessed valuation for operating purposes without voted approval by the citizens of the City.

The property tax calendar is as follows:

Taxes are listed each January 1.

Liens may be placed on property January 1.

Taxes are levied each July 1, except for ad valorem taxes on certain vehicles

Taxes are due September of each year.

Taxes are considered delinquent after January 5 of the following year.

Penalties are applied to delinquent taxes at a rate of 2% in January and 3/4 of 1% per month for each month thereafter until collected or foreclosure proceedings are consummated. Garnishment and sale of taxable property are procedures used for collecting delinquent taxes. The tax rate for debt service purposes is unlimited provided that the voters have approved the bonds issued or provided that the bonds issued during any year have not exceeded two-thirds of that fiscal year's net debt reduction.

v. Inventories and Prepaid Items

Inventories held in the Various Funds consist primarily of expendable materials and supplies held for consumption. Inventories are stated using the weighted-average method (which approximates FIFO). Inventory items are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government wide and fund financial statements and expensed as the items are used.

vi. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$1,000 and estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Major expenditures for capital assets and those repairs, which increase useful lives, are capitalized. Capital outlay for the construction of streets, parks, water and sewer lines and other types of infrastructure expenditures are capitalized as land improvements. Maintenance, repairs and minor renewals are expensed as incurred. There was no interest capitalized during the FY 2002. New public domain and general infrastructure are being capitalized and depreciated. Old infrastructure assets are being reviewed and will be depreciated by the year 2006 in accordance with the implementation schedule in GASB 34.

Capital assets of the City are depreciated using the straight line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Public Domain infrastructure and systems	10-80 years
Enterprise infrastructure and systems	50-80 years
Buildings	25-40 years
Furniture, machinery and equipment	5-12 years
Computer equipment	3-5 years

vii. Deferred/Unearned Income

In the fund financial statements, ad valorem taxes are not recognized as revenue when they are not considered to be both "measurable and available." Property taxes that are measurable, but not available are initially recorded as deferred income. In addition, property taxes collected in advance of the fiscal year to which they apply are recorded as unearned income. The non-current portion of assessments in the General Fund is recorded as unearned income because the amount is not considered to be available at the end of the fiscal year. Deferred income in the Special Revenue and Capital Projects Funds consist of notes repayments, it is recorded as deferred income because the amount is not considered to be available at the end of the fiscal year.

	<u>Deferred Income</u>	<u>Unearned Income</u>
Taxes, assessments, Business licences and other collected in advance (General Fund)	\$	\$ 1,805,471
Taxes (General Fund)	3,806,616	
Assesments, notes and other (General Fund)	1,311,604	
Notes receivable (Special Revenue Fund)	7,812,937	
Notes (Capital Projects Fund)	20,358,469	
Taxes collected in advance (Civic Center)		56,815
Parking billed in advance (Parking Facilities)		68,177
Notes (Water and Sewer Fund)		177
	\$ <u>33,289,626</u>	\$ <u>1,930,640</u>

viii. Long Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

ix. Compensated Absences

The vacation policy of the City provides for carrying forward up to 240 hours earned vacation leave on January 1 of each year with such leave being fully vested when earned. Accrued vacation hours in excess of 240 hours are automatically transferred to accrued sick hours on January 1 of each year. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

The City's sick leave policy provides for an unrestricted accumulation of earned sick leave. Upon termination of employment, accumulated sick leave is forfeited. Upon retirement, a certain portion of the accumulated sick leave may be used in the determination of length of service for retirement purposes. No obligation to the employer results from such application and therefore, no accrual has been made.

x. Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

Fund balances are segregated into the following classifications:

Reserved for Encumbrances - represents commitments for the expenditure of funds under purchase orders and contracts.

Reserved by State Statute - in certain governmental funds, a portion of fund balance is designated "Reserved by State Statute." These amounts represent the portion of fund balances applicable to various assets not yet realized in cash, which are not available for appropriation as defined by the General Statutes of North Carolina.

Reserved for water into trees - represents the amount that is a voluntary donation, it is accumulated when water utility bills are rounded up to the next dollar when paid.

Reserved for employees' pension benefits - represents the amount held in the Law Enforcement Officers' Separation Allowance Fund that is used for pension benefits for qualified law enforcement employees.

Reserved for streets - Powell Bill portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Designated for Subsequent Year's Expenditures - represents the amount of fund balance appropriated to the budget for the year ending June 30, 2003.

Designated for Subsequent Year's Expenditures - represents the amount of fund balance budgeted for the current year, not yet expended, and approved to be carried forward to the fiscal year ending June 30, 2003.

Undesignated - represents the amount of fund balance which is available for future appropriations.

xi. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditure/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government wide presentation.

Note 2 – Stewardship, Compliance and Accountability

A. Compliance With Finance Related Legal and Contractual Provisions

The following funds had net asset deficits at June 30, 2002: Solid Waste Disposal Fund \$21,118,894, Civic Center Fund \$202,669, and the Risk Retention Fund \$6,874,718. There were no governmental funds that had fund balance deficits at June 30, 2002:

B. Excess of Expenditures over Appropriations In Individual Funds

For the fiscal year ended June 30, 2002, the expenditures made in the City's Parking Facilities Fund exceeded the authorized appropriations by \$7,644,711. This over-expenditure occurred because refunding of debt that was not budgeted..

C. Restatement of Prior Year Balances

Debt transfer - The solid waste collections function was returned to the General fund in the past years. It has been determined the amount of debt transferred to the general long-term debt account group was in error. This corrects that error.

Correction of transfers - At the time the Housing Projects Fund was separated from the Recreation and General Capital Projects Fund, the amount of the interfund transfer was understated. This corrects that error.

Interfund loans - In past years, transfers were made to some funds with the goal that a repayment would be made in the following year. The aforementioned transfers will now be repaid over a period of time. Therefore, the following is a schedule of the restatement of prior year balances.

	General Fund	Recreation and General Capital Projects Fund	Housing Projects Fund	Water and Sewer Fund	Solid Waste Disposal Fund	Ballpark Fund	Transit Investment Fund
Fund/Net Assets							
Balance - prior year	\$27,611,698	\$ 2,261,102	\$ 3,663,830	\$117,441,901	\$(19,673,955)	\$3,819,626	\$ 9,716,775
Debt transfer	-	-	-	24	(530,289)	-	-
Correction of transfers		(224,527)	224,527				
Interfund loans	<u>(302,075)</u>	<u>-</u>	<u>-</u>	<u>3,618,222</u>	<u>-</u>	<u>(3,920,295)</u>	<u>604,148</u>
Fund/Net Assets							
Balance - restated	<u>\$27,309,623</u>	<u>\$ 2,036,575</u>	<u>\$ 3,888,357</u>	<u>\$121,060,147</u>	<u>\$(20,204,244)</u>	<u>\$ (100,669)</u>	<u>\$ 10,320,923</u>

Note 3 – Detailed Notes on All Funds

A. Deposits

All deposits of the City are made in official depositories and are required to be collateralized by State statute (G.S. 159-31). The City may designate as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and Super NOW accounts, money-market accounts and certificates of deposit.

All of the City's deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits over the federal depository insurance coverage are collateralized with securities held by the City's agent in the City's name. Under the pooled method, a collateral pool, all unsecured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a Fiduciary capacity for the City, these deposits are considered to be held by the City's agent in the City's name. The amount of the pledged collateral is based on an approved averaging method for non interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the pooled method must advise the State Treasurer of the adequacy of their pooled collateral covering uninsured deposits.

At year-end, the City's deposits had a carrying amount of \$4,794,684 and a bank balance of \$8,222,938. Of the bank balance, \$744,805 was deposited in a bank using the dedicated method of collateralization.

Of the balance in the bank under the pooling method, \$300,000 is covered by federal depository insurance. The remaining balance of \$7,178,132 is collateralized by securities set aside by the bank that are held by the City's agents.

B. Investments

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or its agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in the City's name.

	Category			Carrying Value	Fair Value
	1	2	3		
Commercial Paper	\$ 30,837,411	-	-	\$ 30,837,411	\$ 30,837,411
Bonds	46,150,680	-	-	46,150,680	46,150,680
U. S. Government Securities	10,798,952	-	-	10,798,952	10,915,146
Agencies	86,963,271	-	-	86,963,271	87,267,108
	<u>\$ 174,750,314</u>	<u>-</u>	<u>-</u>	<u>\$ 174,750,314</u>	<u>\$ 175,170,345</u>

Investments not subject to categorization

Investments held in pooled

cash or Mutual fund accounts

	14,010,926	14,010,926
Total investments	<u>\$ 188,761,240</u>	<u>\$ 189,181,271</u>

C. Receivables – Allowances for Doubtful Accounts

Receivables at year end for the city's individual major funds and nonmajor, including the applicable allowances for uncollectable accounts, are as follows:

	General	Housing Projects	Water and Sewer	Transit	Solid Waste Disposal	Nonmajor and Other Funds	Total
Receivables:							
Taxes	\$ 4,709,100	-	-	-	-	\$ 70,286	\$ 4,779,386
Accounts	1,096,616	-	9,371,832	-	399,489	1,693,097	12,561,034
Special assessments	855,546	-	2,598,803	-	-	5,154	3,459,503
Interest	213,481	28,098	368,907	19,813	9,145	507,691	1,147,135
Notes	474,229	20,098,274	840,200	-	-	8,499,836	29,912,539
Intergovernmental	1,254,976	23	858,937	1,134,853	18,591	3,069,887	6,337,267
Gross receivables	8,603,948	20,126,395	14,038,679	1,154,666	427,225	13,845,951	58,196,864

Less: allowance for uncollectables	(914,462)	(533,385)	(1,123,359)	-	(490)	(611,371)	(3,183,067)
Net total receivables	\$ 7,689,486	\$ 19,593,010	\$ 12,915,320	\$ 1,154,666	\$ 426,735	\$ 13,234,580	\$ 55,013,797

Notes receivable represent loans made by the City for housing, redevelopment or improvements to blighted areas of the City. These notes receivable have varying interest rates and payment terms, with stated interest rates ranging from 0 to 8.75 percent and scheduled repayment dates through 2029. Some notes are payable in equal installments while others have balloon payments.

The City had the following notes receivable that were in default at June 30, 2002:

South East Durham Development Corp.	<u>\$858,311</u>
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D. Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balances	Additions	Disposals/ Adjustments/ Transfers	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 20,944,764	\$ 2,519,648	\$ (1,111,314)	\$ 22,353,098
Construction in progress	<u>17,532,051</u>	<u>2,851,605</u>	<u>(5,604,988)</u>	<u>14,778,668</u>
Total capital assets not being depreciated	<u>38,476,815</u>	<u>5,371,253</u>	<u>(6,716,302)</u>	<u>37,131,766</u>
Capital assets being depreciated:				
Buildings	62,087,445	2,360,449	4,176,891	68,624,785
Infrastructure	-	39,723,496	-	39,723,496
Furniture and office equipment	8,673,128	356,903	(1,817,774)	7,212,257
Machinery and equipment	<u>43,415,513</u>	<u>3,295,487</u>	<u>(686,841)</u>	<u>46,024,159</u>
Total capital assets being depreciated	<u>114,176,086</u>	<u>45,736,335</u>	<u>1,672,276</u>	<u>161,584,697</u>
Less accumulated depreciation for:				
Buildings	(15,021,388)	(1,837,662)	-	(16,859,050)
Infrastructure	-	(376,939)	-	(376,939)
Furniture and office equipment	(6,195,064)	(1,105,172)	1,721,906	(5,578,330)
Machinery and equipment	<u>(25,023,346)</u>	<u>(5,519,267)</u>	<u>1,533,192</u>	<u>(29,009,421)</u>
Total accumulated depreciation	<u>(46,239,798)</u>	<u>(8,839,040)</u>	<u>3,255,098</u>	<u>(51,823,740)</u>
Total capital assets being depreciated, net	<u>67,936,288</u>	<u>36,897,295</u>	<u>4,927,374</u>	<u>109,760,957</u>
Governmental activity capital assets, net	<u>\$ 106,413,103</u>	<u>\$ 42,268,548</u>	<u>\$ (1,788,928)</u>	<u>\$ 146,892,723</u>

* Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 706,602
Public Protection	4,198,119
Development	21,596
General Services	2,341,064
Recreation	728,930
Streets and Highways	842,729
	<u>\$ 8,839,040</u>

	Beginning Balances	Additions	Disposals/ Adjustments/ Transfers	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 35,188,072	\$ 885,118	\$ (49,419)	\$ 36,023,771
Construction in progress	<u>10,642,801</u>	<u>5,005,725</u>	<u>(406,377)</u>	<u>15,242,149</u>
Total Capital assets not being depreciated	45,830,873	5,890,843	(455,796)	51,265,920
Capital assets being depreciated:				-
Infrastructure	212,044,396	2,646,323	1,757,335	216,448,054
Buildings	208,204,690	36,980	(1,757,335)	206,484,335
Furniture and office equipment	4,390,547	42,825	(17,351)	4,416,021
Machinery and equipment	<u>23,289,246</u>	<u>1,897,412</u>	<u>(1,543,380)</u>	<u>23,643,278</u>
Total capital assets being depreciated	<u>447,928,879</u>	<u>4,623,540</u>	<u>(1,560,731)</u>	<u>450,991,688</u>
Less accumulated depreciation for:				
Infrastructure	(104,913,009)	(3,125,743)	-	(108,038,752)
Buildings	(85,932,894)	(5,022,147)	-	(90,955,041)
Furniture and office equipment	(3,521,235)	(49,331)	23,384	(3,547,182)
Machinery and equipment	<u>(15,138,474)</u>	<u>(1,662,689)</u>	<u>308,205</u>	<u>(16,492,958)</u>
Total accumulated depreciation	<u>(209,505,612)</u>	<u>(9,859,910)</u>	<u>* 331,589</u>	<u>(219,033,933)</u>
Total capital assets being depreciated, net	<u>238,423,267</u>	<u>(5,236,370)</u>	<u>(1,229,142)</u>	<u>231,957,755</u>
Business-type activities capital assets, net	<u>\$ 284,254,140</u>	<u>\$ 654,473</u>	<u>\$ (1,684,938)</u>	<u>\$ 283,223,675</u>

* Depreciation expense was charged to functions as follows:

Business-type activities:

Water/Sewer distribution systems	\$ 6,920,481
Parking facilities	377,368
Stormwater	313,401
Civic Center operations	284,158
Ballpark operations	377,445
Landfield operations	587,617
Transit	999,440
	<u>\$ 9,859,910</u>

Construction and Service Contracts

At June 30, 2002, the City has commitments outstanding for construction of capital projects totaling approximately \$19,410,695. The City also has commitments outstanding for service contracts totaling approximately \$5,360,919.

E. Interfund Receivables, Payables and Transfers

i. The composition of interfund balance at June 30, 2002, are as follows:

Due to / from other funds

Receivable Fund	Payable Fund	Amount
Downtown Revitalization	Community Development	\$ 752,508
Downtown Revitalization	Other Special Revenue Grants	208,405
		<u>960,913</u>

ii. Transfers To Other Funds

The following is a schedule of interfund transfers for the year ended June 30, 2002:

Transfer in:	Transfers Out						Total
	General Fund	Housing Projects Fund	Nonmajor Funds	Water and Sewer Fund	Solid Waste Disposal Fund	Storm Water Fund	
General fund	\$ -	\$ -	\$ 193,019	\$ 82,000	\$ -	\$ 26,925	\$ 301,944
Nonmajor funds	1,822,558	963,797	-	57,369	-	-	2,843,724
Water and Sewer fund	-	-	-	-	984	429,510	430,494
Parking facilities fund	981,104	-	-	-	-	-	981,104
Transit fund	4,340,000	-	440,989	-	-	-	4,780,989
Solid waste disposal fund	1,326,555	-	-	-	-	-	1,326,555
Ballpark fund	1,833,331	-	-	-	-	-	1,833,331
Internal service fund	-	-	-	191,986	-	13,035	205,021
Total transfers out	<u>\$ 10,303,548</u>	<u>\$ 963,797</u>	<u>\$ 634,008</u>	<u>\$ 331,355</u>	<u>\$ 984</u>	<u>\$ 469,470</u>	<u>\$ 12,703,162</u>

Transfer in of general capital assets:

To water and sewer fund from existing general capital assets	8,804
To storm water fund from existing general capital assets	<u>279</u>

Total transfers in \$12,712,245

F. Leases

i. Operating Leases

The City leases building and office facilities under noncancelable operating leases. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2002 were as follows:

<u>Ending June 30,</u>	
2003	152,818
2004	100,155
2005	59,260
2006	26,400
<u>Total</u>	<u>\$ 338,633</u>

Operating lease amounts paid in 2002 were \$256,116.

ii. Capital Leases

The City has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Obligations for these leases are accounted for in the governmental activities of the government wide statements. The original value of capitalized leases recorded in the governmental activities, capital assets of the government wide statements was \$359,602 accumulated depreciation at June 30, 2002 is \$251,722 leaving a recorded value of \$107,880. The future minimum lease payments remaining were as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	
2003	201,060
2004	83,775
	<u>284,835</u>
<u>Total</u>	<u>(11,306)</u>
	<u>273,529</u>

G. Long Term Obligations

General Obligation Bonds

The City issues general obligation bonds to provide for the acquisition and construction of major equipment and capital facilities. These debt obligations are backed by the full faith, credit and taxing power of the City. However, the principal and interest requirements of the Water and Sewer Utility Fund, the Parking Facilities Fund, Solid Waste Disposal Fund, the Transit Fund and the Civic Center Fund are intended to be repaid from the revenues of those funds.

General obligation bonds outstanding at June 30, 2002:

	<u>Issue Date</u>	<u>Due Serially To</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Balance June 30, 2002</u>
Refunding Bonds 1992	02/01/92	2008	4.70 - 5.90	\$ 46,705,000	\$ 19,450,000
Public Improvements 1992	03/01/93	2009	4.70 - 5.20	9,070,000	5,405,000
Refunding Bonds 1993	06/01/93	2009	4.70 - 5.40	14,180,000	7,990,000
Public Improvements 1993 - Series A	03/01/93	2008	4.70 - 5.20	23,700,000	12,750,000
Public Improvements 1993 - Series B	03/18/93	2014	Variable	15,365,000	15,365,000

		Due Serially		Original	Balance
	<u>Issue Date</u>	<u>To</u>	<u>Interest Rate</u>	<u>Issue</u>	<u>June 30, 2002</u>
Public Improvements 1993 - Series B	03/18/93	2014	Variable	15,365,000	15,365,000
Public Improvements 1994	02/01/94	2014	4.70 - 4.90	29,680,000	21,680,000
Public Improvements 1995	02/01/95	2014	5.70 - 5.90	24,605,000	20,400,000
Public Improvements 1996	02/01/96	2016	4.60 - 5.10	15,225,000	13,685,000
Housing Bonds 1996	04/10/96	2008	6.50 - 6.50	7,100,000	4,490,000
Public Improvements 1997	02/01/97	2016	5.00 - 5.40	7,190,000	5,565,000
Public Improvements 1998	03/01/98	2017	4.50 - 4.70	18,550,000	14,750,000
Public Improvements 1999	04/01/99	2019	4.25 - 5.00	29,255,000	26,255,000
Public Improvements 2000 - Series A	03/01/00	2019	5.25 - 5.50	15,185,000	13,685,000
Public Improvements 2000 - Series B	09/01/00	2021	4.80 - 5.10	16,910,000	16,110,000
Housing Bonds 2000	10/26/00	2018	Variable	8,000,000	7,750,000
Public Improvements 2002	06/01/02	2022	4.00 - 5.00	<u>26,910,000</u>	<u>25,910,000</u>
				\$ <u>307,630,000</u>	\$ <u>231,240,000</u>

The bonds are recorded as follows:

Governmental Activities	\$ 103,331,160
Business-type Activities (Water & Sewer, Solid Waste, Transit, Civic Center Funds)	<u>127,908,840</u>
TOTAL	\$ <u>231,240,000</u>

The City is subject to the Local Government Bond Act of North Carolina that limits the net bonded debt the City may have outstanding to eight percent of the appraised value of property subject to taxation. At June 30, 2002 such statutory limit for the City was \$1,106,818,034 providing a debt margin of approximately \$792,807,793.

The following schedule shows annual requirements to amortize all general obligation bonds debt outstanding as of June 30, 2002. Interest on variable rate bonds has been estimated using the rate in effect at June 30, 2002.

<u>Fiscal Year</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Amortization</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 6,271,058	\$ 2,050	\$ 5,415,591	\$ 8,933,943	\$ 6,532,404
2004	6,274,510	2,050	5,086,375	9,125,490	6,072,985
2005	6,274,813	2,050	4,755,289	9,315,188	5,600,901
2006	6,716,819	2,050	4,423,963	9,078,181	5,117,067
2007	6,057,360	2,050	4,066,658	9,597,641	4,645,995
2008-2012	31,492,352	10,250	15,133,365	46,817,648	16,256,889
2013-2017	24,251,387	10,250	7,925,462	29,323,614	4,988,273
2018-2022	<u>15,992,861</u>	<u>8,201</u>	<u>2,208,658</u>	<u>5,717,138</u>	<u>518,565</u>
Total	<u>\$ 103,331,160</u>	<u>\$ 38,951</u>	<u>\$ 49,015,361</u>	<u>\$ 127,908,843</u>	<u>\$ 49,733,079</u>

As of June 30, 2002, \$26,772,000 general obligation bonds were authorized but unissued.

Certificates of Participation

The City has contracts payable to New Durham Corporation with terms of twenty years and interest and principal payments due annually. The City also has contracts payable to Durham Risk Management Corporation with respect to the payment of two series of certificates of participation in aggregate amount of \$31,100,000 in principal. The certificates of participation provide funds to capitalize the City's Risk Retention Fund.

Certificates of Participation outstanding as of June 30, 2002:

	<u>Issue Date</u>	<u>Due</u> <u>Serially</u> <u>To</u>	<u>Interest</u> Rate	<u>Original</u> <u>Issue</u>	<u>Balance</u> <u>June 30, 2002</u>
Ballpark 1992	09/15/92	2003	3.60 - 6.38	\$ 10,970,000	\$ 515,000
Risk Management 1993 - Series A	01/06/93	2009	Variable	20,800,000	9,800,000
Risk Management 1993 - Series B	01/06/93	2004	Variable	10,300,000	10,300,000
Multi-purpose 1995	07/15/95	2015	4.00 - 5.80	12,525,000	6,415,000
Refunding 1996 - Series A	12/15/96	2010	3.75 - 5.25	3,255,000	2,325,000
Refunding 1996 - Series B	12/15/96	2010	3.75 - 5.25	4,415,000	4,215,000
Multi-purpose 1997	06/01/97	2017	4.50 - 6.75	7,465,000	5,575,000
Refunding 1998 - Series A	10/15/98	2010	3.00 - 4.60	8,030,000	7,750,000
Multi-purpose 2001 - Series A	07/15/01	2021	3.40 - 5.25	15,660,000	14,645,000
Refunding 2001 - Series A	07/15/01	2011	5.40 - 6.88	8,000,000	7,210,000
				<u>\$ 101,420,000</u>	<u>\$ 68,750,000</u>

The bonds are recorded as follows:

Governmental Activities	53,275,000
Business-type Activities (Ballpark and Parking facilities Funds)	15,475,000
TOTAL	68,750,000

Future requirements to pay principal and interest on the contracts at June 30, 2002, are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Amortization</u>	<u>Interest</u>	<u>Principal</u>	<u>Amortization</u>	<u>Interest</u>
2003	\$ 8,160,000	\$ 3,091	\$ 1,950,480	\$ 1,290,000	\$ 90,033	\$ 1,378,198
2004	14,770,000	3,091	1,769,133	1,350,000	83,395	871,490
2005	4,585,000	3,091	1,589,252	1,390,000	76,616	467,144
2006	3,065,000	3,091	1,396,855	1,440,000	69,724	388,475
2007	3,105,000	3,091	1,255,233	2,290,000	62,528	291,740
2008-2012	13,660,000	15,455	4,122,519	4,995,000	177,512	357,973
2013-2017	3,390,000	15,455	1,588,089	2,720,000	-	-
2018-2022	<u>2,540,000</u>	<u>12,358</u>	<u>321,945</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 53,275,000</u>	<u>\$ 58,723</u>	<u>\$ 13,993,504</u>	<u>\$ 15,475,000</u>	<u>\$ 559,808</u>	<u>\$ 3,755,019</u>

Refunding

On July 1, 2001, the City issued \$23,660,000 in Certificates of Participation with an average interest rate of 5 percent; of this the City used \$8,000,000 with an average interest rate of 4.68 percent to do a current refund of \$7,760,000 of outstanding 1991 Certificates of Participation for the Morgan Street Parking Facility Project. Those 1991 Certificates of Participation had an average interest rate of 6.62 percent. The net proceeds for the refunding of \$8,089,644 (after premium, underwriting fees and other issuance costs) were deposited with an escrow agent to provide debt service payments for the 1991 series. As a

result, the 1991 series certificates are considered to be defeased and the liability for those bonds has been removed from the statements of net assets.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$222,075. This difference along with premium and issuance costs, \$200,329 and \$100,282 respectively, are being charged to operations through the year 2011. The City completed the refunding to reduce its total debt service payments by \$813,610 over the next 10 years and to obtain an economic gain of \$671,367.

Mortgage Revenue Bonds

The City is also a party to urban redevelopment revenue bonds that were used to fund the acquisition and rehabilitation of the former Durham Hosiery Mill. These bonds were issued on March 1, 1987 for an amount totaling \$5,715,000 with an interest rate of 7.50%. Debt service requirements are met through rental income from Durham Hosiery Mill. Future requirements to pay principal and interest for the governmental activity at June 30, 2002, are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ -	\$ 390,750	\$ 390,750
2004	-	390,750	390,750
2005	-	390,750	390,750
2006	-	390,750	390,750
2007	-	390,750	390,750
2008-2030	5,080,000	8,987,250	14,067,250
	<u>\$ 5,080,000</u>	<u>\$ 10,941,000</u>	<u>\$ 16,021,000</u>

The mortgage revenue bonds are secured by the property financed and are limited obligations of the City payable solely from rental income received from Durham Hosiery Mill and do not constitute general obligation debt or liability of the City.

In fiscal year 1997-98, the City was a party to a \$5,000,000 issue in Multifamily Housing Revenue Bonds. Proceeds from this sale were loaned to The Ivy Commons Limited Partnership to assist the company with the purchase, rehabilitation, and equipping of a 231 unit multifamily residential housing project. The proceeds will also fund a debt service reserve fund. The mortgage revenue bonds are secured by the property financed and payable solely from rental income received from the project. The bonds are limited obligations of the City and do not constitute general obligation debt or a liability of the City.

Revenue Bonds

Over the last eight years, the City issued \$54,595,000 in revenue bonds to fund certain capital improvements in the Water and Sewer Fund. These obligations are not backed by the full faith and credit of the City, but only by net revenues, as defined, of the Water and Sewer Fund. The City is required to make monthly deposits with the trustee to cover annual debt service requirements.

	Issue Date	Due Serially To	Interest Rate	Original Issue	Balance June 30, 2002
Series 1994	12/15/94	2016	4.75 - 5.90	\$ 5,330,000	\$ 1,915,000
Series 1994 Variable	12/15/94	2016	Variable	10,500,000	10,500,000
Series 1998	06/15/98	2018	4.50 - 5.00	16,765,000	14,510,000
Series 2001	07/15/01	2021	2.75 - 5.25	<u>22,000,000</u>	<u>21,385,000</u>
				<u>\$ 54,595,000</u>	<u>\$ 48,310,000</u>

Future requirements to pay principal and interest on the water and sewer revenue bonds liabilities at June 30, 2002, are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2003	\$ 1,990,000	\$ 2,409,860	\$ 4,399,860
2004	2,085,000	2,319,250	4,404,250
2005	2,175,000	2,223,728	4,398,728
2006	2,260,000	2,121,915	4,381,915
2007	2,325,000	2,015,715	4,340,715
2008-2012	13,630,000	8,217,525	21,847,525
2013-2017	16,390,000	4,268,464	20,658,464
2018-2021	<u>7,455,000</u>	<u>855,750</u>	<u>8,310,750</u>
	<u>\$ 48,310,000</u>	<u>\$ 24,432,207</u>	<u>\$ 72,742,207</u>

Certain financial covenants are contained in the bond order. The most restrictive of these are the debt service coverage ratios, as defined. The first is that net revenues, as defined, must exceed 125% of the debt service requirements for all parity indebtedness, as defined. The other ratio is that net revenues less parity debt service expenditures must exceed 100% of all debt service requirements. The City was in compliance for the year ended June 30, 2002.

Durham County Notes

Notes payable to Durham County (the "County") consist of a series of 20 year notes with final maturity dates ranging from 2010 to 2016. The notes were given to the County in exchange for certain water and sewer assets transferred to the City. The notes bear interest at 5.54 percent. Principal payments for each note are due based on the collections of certain assessments, frontage fees and water and sewer charges received by the City, which are attributable to the related project. Given the uncertainty of the timing of these future collections, annual maturities for these notes are not determinable.

North Carolina Department of Transportation

The City has various right-of-way and construction notes payable to the North Carolina Department of Transportation. A liability of \$59,249 for substantially completed projects is included in the governmental activities, and a liability of \$675,227 is included in the business-type activities.

State of North Carolina

The City has drawn down \$15,000,000 from the State of North Carolina to fund the North Durham Water Reclamation Facility upgrade and expansion project. Interest will accrue at 3.70% per annum on the

unpaid principal. Future requirements to pay principal and interest to the State of North Carolina at June 30, 2002 follow:

Fiscal year ending June 30,	Principal	Interest	Total
2003	\$ 750,000	\$ 333,000	\$ 1,083,000
2004	750,000	305,250	1,055,250
2005	750,000	277,500	1,027,500
2006	750,000	249,750	999,750
2007	750,000	222,000	972,000
2008-2012	3,750,000	693,750	4,443,750
2013-2014	1,500,000	83,250	1,583,250
	<u>\$ 9,000,000</u>	<u>\$ 2,164,500</u>	<u>\$ 11,164,500</u>

The City has a line of credit that has been drawn on during Fiscal Year 2002, it is a twenty year promissory note from the North Carolina Drinking Water State Revolving Fund in the principal amount of \$2,700,000 at a rate of 2.87% per annum to provide funds to pay a part of the cost of a water project. Future requirements to pay principal and interest to the State of North Carolina follow:

Fiscal year ending June 30,	Principal	Interest	Total
2003	\$ 135,000	\$ 142,280	\$ 277,280
2004	135,000	73,616	208,616
2005	135,000	69,741	204,741
2006	135,000	65,867	200,867
2007	135,000	61,992	196,992
2008-2012	675,000	251,843	926,843
2013-2022	1,350,000	213,098	1,563,098
	<u>\$ 2,700,000</u>	<u>\$ 878,435</u>	<u>\$ 3,578,435</u>

Changes in Long Term Obligations

The following is a summary of changes in long term obligations during the year ended June 30, 2002:

	Principal Outstanding June 30, 2001			Principal Outstanding June 30, 2002		
		Additions	Retirements		Due within One Year	
Governmental activities						
Bonds Payable						
General obligation bonds	\$ 82,528,022	\$ 25,910,000	\$ (5,106,862)	\$ 103,331,160	\$ 6,271,058	
Mortgage Revenue bonds	5,135,000	-	(55,000)	5,080,000	60,000	
Less deferred amounts	-	(41,001)	2,050	(38,951)	(2,050)	
Total bonds payable	87,663,022	25,868,999	(5,159,812)	108,372,209	6,329,008	

	Principal Outstanding June 30, 2001			Principal Outstanding June 30, 2002 Due within One Year	
		Additions	Retirements		
Governmental activities					
Certificates of participation					
Contracts payable	51,860,000	15,660,000	(14,245,000)	53,275,000	8,160,000
Less deferred amounts	-	61,814	(3,091)	58,723	3,091
Total certificates of participation	51,860,000	15,721,814	(14,248,091)	53,333,723	8,163,091
Capital Leases	454,317	-	(182,788)	273,529	175,368
Accrued compensated absences	6,314,550	3,367,290	(2,802,161)	6,879,679	587,734
Notes payable to N. C. Department of Transportation	59,249	-	-	59,249	-
Total governmental activities	<u>\$ 146,351,138</u>	<u>\$ 44,958,103</u>	<u>\$ (22,392,852)</u>	<u>\$ 168,918,389</u>	<u>\$ 15,255,201</u>
Business-type activities					
Bonds Payable					
General obligation bonds	\$ 136,991,978	\$ -	\$ (9,083,135)	\$ 127,908,843	\$ 15,265,778
Revenue bonds	28,095,000	22,000,000	(1,785,000)	48,310,000	1,990,000
Total bonds payable	165,086,978	22,000,000	(10,868,135)	176,218,843	17,255,778
Certificates of participation					
Contracts payable	16,610,000	8,000,000	(9,135,000)	15,475,000	1,290,000
Less deferred amounts	(525,291)	(122,027)	87,510	(559,808)	(87,510)
Total certificates of participation	16,084,709	7,877,973	(9,047,490)	14,915,192	1,202,490
Accrued compensated absences	893,254	716,757	(605,415)	1,004,596	115,796
Notes payable to North Carolina Department of Transportation	675,227	-	-	675,227	-
Notes payable to State of North Carolina	9,750,000	2,700,000	(750,000)	11,700,000	885,000
Notes payable to Durham County	32,331,493	-	(192,000)	32,139,493	523,000
Total Business-type activities	<u>\$ 224,821,661</u>	<u>\$ 33,294,730</u>	<u>\$ (21,463,040)</u>	<u>\$ 236,653,351</u>	<u>\$ 19,982,064</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities.

Note 4 - Other

A. Risk Management

The City is exposed to various risks of loss related to property, liability, personnel and income. During fiscal year 1994, the City reorganized its Risk Retention Fund into three internal service funds: Risk Reduction, Claims Payment and Asset Protection. For the benefit of these funds the City issued through the New Durham Corporation certificates of participation in the amount of \$31,100,000, the proceeds of which are to be used to run operations and pay claims.. For financial statement purposes these three related funds are combined.

The Risk Reduction Fund provided funds for the operational needs of the City's Risk Management Division, including funds for risk transferred by the purchase of insurance. The Claims Payment Fund provides funds for losses retained by the City, including claims paid to others and deductible amounts on

otherwise insured losses. The City maintains the following deductibles or self insured retentions on insurance policies: \$350,000 per occurrence for vehicle and general liability, public official and law enforcement liability and workers compensation, \$100,000 per loss for commercial property (\$5,000 on the Civic Center), \$25,000 per loss on boiler and machinery, \$2,500 per loss on money and securities, \$5,00 - \$1,000 per loss on inland marine property (computer hardware and 800 MHz radio system equipment), \$500 per loss on flood at West Point Mill and \$2,500 per loss on employee blanket bond (\$1,000 for peace officers) and individual public official bonds. The Asset Protection Fund is used to collect insurance premiums from all operating funds of the City except the Transit Fund. The amounts paid are based on historical cost information and actuarial estimates of the amounts needed to pay prior and current year claims and to have a reserve amount available to fund catastrophic losses.

The pending claims liability of \$6,172,000 reported in the fund at June 30, 2002 is based on the requirements of Governmental Accounting Standards Board Statement Number 10, which required that a liability for claims be reported if information prior to the issuance of the basic financial statements indicate that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability follow:

	Beginning of Year	Claims, Fees and Changes in Estimates	Payments	End of Year
2000	\$ 6,808,460	\$ 4,040,340	\$ 3,975,800	\$ 6,873,000
2001	6,873,000	3,402,955	3,379,997	6,895,958
2002	6,895,958	1,696,873	2,420,831	6,172,000

The City is self-insured for health and dental coverage for the majority of the City employees. Management has determined that the liability would not be material to the basic financial statements. Changes in the funds claims liability follow:

	Beginning of Year	Claims, Fees and Changes in Estimates	Payments	End of Year
2000	\$ 168,071	\$ 1,002,814	\$ 1,018,780	\$ 152,105
2001	152,105	1,184,609	1,150,612	186,102
2002	186,102	1,086,775	1,071,436	201,441

B. Subsequent Events

There were no significant subsequent events.

C. Jointly Governed Organization

i. Research Triangle Regional Public Transportation Authority

The City, in conjunction with other area local governments, is a member of the Research Triangle Regional Public Transportation Authority. The City and Durham County appoint one member each and jointly appoint a third member. The Authority possesses final decision making ability and is solely responsible for the management, budget, and fiscal operations of the Authority.

ii. Triangle J Council of Governments

The City of Durham along with thirty other municipalities and five counties, established the Triangle J Council of Governments. The participating governments, established the Triangle J Council of Governments to coordinate various funding received from federal and state agencies. Each participating member appoints one official to the governing board of the Triangle J Council of Governments. The City paid membership fees of \$52,831 to the Council during the fiscal year ending June 30, 2002.

D. Joint Venture

Raleigh Durham Airport Authority

The Raleigh Durham Airport Authority is a joint venture without equity interest, it is governed by an eight-member board, of which two members are appointed by the City of Durham. Wake and Durham Counties and the City of Raleigh each appoint two members. The City is not able to impose its will on appointed members. Each government contributes \$12,500 annually for administration of the Authority. The Authority possesses final decision-making ability and is solely responsible for the management, budget and fiscal operations of the Authority. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2002. Complete financial statements of the Authority may be obtained from the Authority's administrative offices at RDU Airport, North Carolina 27623.

E. Related Organization

Durham Housing Authority

In accordance with the process outlined in the North Carolina General Statutes, as amended by local act, the City Council appoints members to the governing board of the Authority but is not able to impose its will on appointed members. Budgetary and financial management and fiscal operations of the Authority are totally the responsibility of the Authority. The City receives reports and makes recommendations as provided by State General Statute 157-27. The Authority has independent legislative and administrative authority.

F. Civic Center

In a contractual agreement, The Durham Civic Center Authority was established by the City and County of Durham and is assigned such powers as necessary, reasonable and practicable for the operation and maintenance of the Civic Center facility. The Durham Civic Center Authority consists of seven members who are appointed to three-year terms. Three members are appointed by the City and three members by the County, with the seventh member selected by the six members appointed by the City and County. The members elect from its membership a Chairman and Vice Chairman. The Shaner Hotel Group has a contract with the Durham Civic Center Authority and manages the operation of the Civic Center for the City and the County. The City and the County share all operating costs and all operating revenues equally. All budgeting and accounting of the Durham Civic Center Authority, including the collection or disbursement of funds, are part of the budgeting and accounting systems of the City.

The City and County determined that the construction of a civic center would stimulate private investment in and rejuvenate the downtown area of the City. In October 1987, the City and County entered into agreements with a private developer to construct the Civic Center. The City and County initially deposited \$17,300,000, \$14,300,000 by the City and \$3,000,000 by the County, in an escrow account that together with interest was used to fund the purchase the facility. The County will continue to repay the City for their portion of the cost of construction with annual payments until the year 2006, at which time both the City and the County will each own 50% of the equity in the Civic Center. The current contract percentage of ownership by the County at June 30, 2002 is 44.4 %. The entire operation

of the Civic Center is included in the Enterprise Funds section of this report. The County's current ownership in the civic center is presented as the minority interest in the Civic Center Fund.

G. Post-Retirement Benefits

i. Health Benefits

In addition to providing pension benefits, the City has elected to provide post-retirement health benefits to retirees of the City who elect to continue group health insurance until age 65. Eligibility for post retirement health insurance is limited to retirees who have not reached the age of 65 and have been a member of the group health plan for 90 days prior to the retirement date. The City currently provides a subsidy of 70% of the premium charged by the provider for retiree and eligible dependent health insurance. For disabled retirees, the City pays 100% of the premium for individual coverage for the 12 months following retirement, and supplements dependent coverage at retiree group rates. The disabled retiree has the option after the 12 month period to continue group health insurance until age 65 under the then current group retiree plan. Currently 341 retirees are participating in the plan. For the year ended June 30, 2002, the City remitted to providers approximately \$979,505 for health insurance premiums for retirees. The City also reimburses retired employees over 65 for health insurance acquired to supplement Medicare. At June 30, 2002 there were approximately 183 employees who were receiving reimbursements. The total reimbursements paid by the City for the fiscal year was \$ 202,197.

ii. Death Benefits

For pre-1972 retirees, the City elected to provide them death benefits through a group life insurance carrier. Currently, 3 retirees have coverage equal to their annual salary at the time of retirement rounded to the nearest thousand dollars. The City paid \$492 in premiums for this coverage. For all post-1972 disabled retirees, the coverage is equal to their annual salary at the time of retirement rounded to the nearest thousand dollars. Presently, 16 post-1972 retirees are covered by this benefit. The City paid \$2,030 for the year ended June 30, 2002 in premiums for this coverage.

iii. Death Trust Plan

The City has elected to provide death benefits to law enforcement officers through the Death Trust Plan for Members of the Local Governmental Employee's Retirement System (Death Trust Plan), a State administered plan funded on a one year-term basis. Lump sum death benefits are provided to officers 1) who die in active service after one year of contributing membership in the System, or 2) who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death. This payment is equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefit may not exceed \$20,000. Annually, the State sets the City's monthly contribution rate for death benefits. For the fiscal year ended June 30, 2001, the City made contributions to the state for death benefits of \$25,863 for law enforcement officers representing 0.14% of covered payroll.

H. Employee Retirement Systems

i. The North Carolina Local Government Employees' Retirement System

Plan description. All permanent full-time City of Durham employees contribute to the state wide Local Government Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. The LGERS provides retirement and disability

benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Government Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

Funding policy. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate for employees not engaged in law enforcement and for law enforcement officers is 4.8% and 4.63%, respectively, of annual covered payroll. The contribution requirements are established and may be amended by the North Carolina General Assembly. The City's contribution to LGERS for the years ended June 30, 2002, 2001, and 2000 were \$3,495,481, \$3,330,598, and \$2,776,523, respectively. The contributions made by the City equaled the required contributions for each year.

ii. Law Enforcement Officers' Special Separation Allowance

The City of Durham administers a public employee retirement system (the "Separation Allowance"), a single-employer, defined pension benefit plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The separation allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The plan does not issue a standalone financial report and is not included in the report of a public retirement system or other entity.

The Separation Allowance covers all full-time law enforcement officers of the City. At December 31, 2001, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	40
Terminated plan members entitled to but not yet receiving benefits	
Active plan members	421
Total	<u>461</u>

Summary of significant accounting policies

Basis of accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method used to value investments. Investments are reported at cost, which approximates fair value. Short-term debt, deposits, repurchase agreements, and North Carolina Capital Management Trust investments are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at cost, which also approximates fair value.

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$668,789 or 3.4% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

Administration costs of the Separation Allowance are financed through investment earnings. The annual required contribution for the fiscal year ended June 30, 2002 was determined as part of the December 31, 2001 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return and (b) projected salary increases ranging from 5.9% to 9.8% per year. Item (b) included an inflation component of 3.75%. The assumptions did not include post retirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2000 was 30 years.

Annual pension cost and net pension obligation. The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 575,447
Interest on net pension obligation	(75,751)
Adjustment to annual required contribution	<u>55,017</u>
Annual pension obligation	554,713
Contributions made	<u>668,789</u>
Increase (decrease) in net pension obligation	(114,076)
Net pension obligation beginning of year	<u>(1,044,837)</u>
Net pension obligation end of year	\$ <u>(1,158,913)</u>

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/00	419,083	125.81%	(956,548)
06/30/01	459,428	119.22%	(1,044,837)
06/30/02	554,713	120.56%	(1,158,913)

iii. Supplemental retirement income plan of North Carolina

Plan description. The City contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to all law enforcement officers and any other employees who are currently members of a state-administered retirement plan and are eligible to participate in the Plan. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend the benefit provisions to the North Carolina General Assembly.

Funding policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Employees may also make voluntary contributions to the plan. The City also contributes 5% of its full-time non-law enforcement employees' salaries to the plan. Contributions for the year ending June 30, 2002 were \$975,235 for law enforcement officers and \$2,691,315 for non-law enforcement employees. Voluntary contributions from all employees were \$1,721,503.

iv. Deferred Compensation

All permanent City employees and elected officials may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. Voluntary contributions from all employees were \$687,597.

The City contributes to the deferred compensation plan for firefighters who do not have social security taxes deducted from their wages. The amount contributed is a match to the employee's contribution; the employee must contribute the required percentage to receive a City match. For fiscal year 2001-2002 the required percentage was 5%. The amount contributed by the City was \$475,397, which is for wages amounting to \$7,507,940.

I. Closure and Post Closure Care Costs

The City owns a landfill site located in the northeast portion of the City. State and federal laws required the City to place a final cover on its Club Boulevard landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each June 30. The \$7,758,477 reported as landfill closure and postclosure care liability at June 30, 2002 is based on the use of 100% of the estimated capacity of the landfill.

The City closed the landfill December 31, 1997. The City will adjust the estimated amount to perform all closure and postclosure care as the amount changes. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. At June 30, 2002, the City had expended \$6,907,073 in closure costs for the Club Boulevard facility. The City has met the requirements of a local government financial test that is an option under state and federal laws and regulations that help determine if a unit is financially able to meet closure and postclosure care requirements.

J. Federal and State Assisted Programs

The City has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys

K. Reclassifications

Certain amounts in the prior year statements have been reclassified to conform to current year classifications.

The following budget statements have been compiled from the budget ordinance and related amendments of the City for the fiscal year ending June 30, 2003.

City of Durham
Compiled Budget - Annually Budgeted Funds
For the Fiscal Year Ending June 30, 2003

	General Fund	Enterprise Fund
Estimated revenues:		
Ad valorem taxes	\$ 106,862,480	\$ 1,190,975
Licenses and permits	6,221,161	644,000
Intergovernmental revenue	16,035,310	2,751,638
Investment and rental income	1,771,773	3,808,338
Fines and forfeitures	450,000	2,000
Charges for services	10,178,834	58,894,843
Intragovernmental services	747,000	20,000
Sale of property and miscellaneous	2,912,013	1,237,999
Total estimated revenues	<u>145,178,571</u>	<u>68,549,793</u>
Appropriations:		
Personal services	86,255,009	18,354,040
Operations	40,644,795	31,715,267
Indirect costs	(5,043,731)	5,043,731
Transit services	-	7,267,285
Capital outlay	5,205,386	5,204,606
Debt service - principle	9,690,692	12,790,098
Debt service-interest	8,934,261	11,293,296
Total appropriations	<u>145,686,412</u>	<u>91,668,323</u>
Estimated revenues over (under) appropriations	<u>(507,841)</u>	<u>(23,118,530)</u>
Other financing sources (uses):		
Debt issuance	2,151,501	-
Operating transfers from other funds:		
General Fund	-	7,016,922
Special Revenue Fund	965,118	6,948,139
Capital Projects Fund	630,910	-
Fiduciary Fund	110,000	-
Enterprise Funds - Project Ordinance	-	4,387,000
Operating transfers to other funds:		
Special Revenue Fund	(1,626,883)	(32,400)
Enterprise Fund	(7,016,922)	-
Enterprise Funds - Project Ordinance	-	(2,080,142)
Internal Service Fund	-	(215,889)
Transfers from reserves	3,755,336	4,610,629
Appropriated fund balances	1,538,781	2,484,271
Total other financing sources (uses)	<u>507,841</u>	<u>23,118,530</u>
Estimated revenues and other sources over appropriations and other uses	<u>\$ -</u>	<u>\$ -</u>

Compiled by the staff of the City of Durham Finance Department.

Note to the Compiled Budget

The compiled budget includes on the General and Enterprise Funds, as the Special Revenue and Capital Projects Funds are managed under project ordinances.

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Contract, the Indenture and the Deed of Trust. This summary is not intended to be definitive and is qualified in its entirety by reference to each of the aforementioned documents for the complete terms thereof. Copies of said documents are available from the City on request.

DEFINITIONS

“*ACL*” means American Campus, LLC, a North Carolina limited liability company having its principal place of business at 2619 Western Boulevard, Raleigh, North Carolina 27606.

“*Additional Certificates*” means Certificates executed and delivered in accordance with the Indenture.

“*Additional Payments*” means the reasonable and customary expenses and fees of the Trustee and the Corporation, any expenses of the Corporation in defending an action or proceeding in connection with the Contract or the Indenture and any taxes or any other expenses, including, but not limited to, licenses, permits, state and local income, sales and use or ownership taxes or property taxes which the Corporation is expressly required to pay as a result of the Contract (together with interest that may accrue thereon in the event that the City fails to pay the same).

“*Beneficiary*” means the Trustee, as assignee of the Corporation, as beneficiary under the Deed of Trust.

“*Business Day*” means a day on which the Trustee or the City is not required or authorized by law to remain closed. If an Interest Payment Date is not a Business Day and interest is paid on the next succeeding day that is a Business Day, no interest will accrue for the period after such Interest Payment Date on the amount not paid on the Interest Payment Date.

“*Cede & Co.*” means Cede & Co., the nominee of DTC or any successor nominee of DTC with respect to the Certificates.

“*Certificates of Participation*” or “*Certificates*” means the certificates of participation to be executed and delivered pursuant to the Indenture evidencing proportionate undivided interest in rights to receive Revenues, including the 2003 Certificates.

“*Certificate Fund*” means the special fund of that name created under the Indenture.

“*City*” means the City of Durham, North Carolina or any successor to its functions.

“*City Representative*” means (1) the Finance Officer, the City Manager or the person or persons at the time designated to act on behalf of the City for the purpose of performing any act under the Contract by a written certificate furnished to the Trustee and the Corporation containing the specimen signatures of such person or persons and signed on behalf of the City by the City Manager and the Finance Officer of the City, or (2) if any or all of the City’s rights and obligations are assigned under the Contract, the person or persons at the time designated to act on behalf of the City and the assignee by a written certificate similarly furnished and of the same tenor.

“*Code*” means the Internal Revenue Code of 1986, as amended, including regulations promulgated thereunder.

“*Completion Date*” means the date on which completion of the construction, acquisition, equipping and installation of the Project occurs, as evidenced by the certificate provided for in the Contract.

“*Construction Contract*” means the contracts between the City and contractors selected and hired by the City relating to the construction, acquisition, equipping and installation of the Facilities.

“*Construction Fund*” means the special fund of that name created under the Indenture.

“*Contract*” means the Installment Purchase Contract dated as of August 1, 2003 between the Corporation and the City and any amendments or supplements thereto including the Exhibits attached thereto.

“*Corporation*” means New Durham Corporation, a nonprofit corporation created and existing under the laws of the State, or its successors as assignees.

“*Corporation Representative*” means any person or persons at the time designated to act on behalf of the Corporation for purposes of performing any act on behalf of the Corporation under the Contract and the Indenture by a written certificate furnished to the City and the Trustee containing the specimen signature of such person or persons and signed on behalf of the Corporation by its President.

“*Cost of Construction*” includes payment of or reimbursement for the following items:

- (a) obligations incurred or assumed for the Project in connection with the design, construction, acquisition, installation and equipping thereof;

- (b) the cost of design, construction, acquisition, installation and equipping of the Project; including, without limitation, the Corporation’s fees and expenses (including the fees and expenses of its counsel), the initial fees and expenses of the Trustee, fees and expenses of the Local Government Commission, legal fees and expenses, taxes, inspection costs, the cost of municipal bond insurance, printing costs, permit fees, filing and recording costs and advertising expenses in connection with the acquisition, construction, equipping and installation of the Project;

- (c) the costs incurred with the execution and delivery of the Certificates; and

- (d) all other costs which are considered to be a part of the costs of construction, acquisition, installation, and equipping of the Project in accordance with generally accepted accounting principles and which will not affect the federal or state tax treatment of the designated interest component of Installment Payments payable by the City under the Contract, including sums required to reimburse the City for advances made by the City that are properly chargeable to the construction, acquisition, installation and equipping of the Project, and including the interest component of Installment Payments prior to the Completion Date.

“*Cost of Issuance Fund*” means the special fund created under the Indenture.

“Deed of Trust” means the Deed of Trust and Security Agreement, dated as of August 1, 2003 from the City to the deed of trust trustee named therein, for the benefit of the Corporation or its assignees.

“DTC” means The Depository Trust Company, a limited purpose company organized under the law of the State of New York, and its successors and assigns.

“DTC Participant” or *“DTC Participants”* means securities brokers and dealers, banks, trust companies, clearing corporations and certain other corporations which have access to the DTC system.

“Event of Default” means those events of default specified in the Contract, the Indenture and the Deed of Trust, as applicable.

“Facilities” means the multi-level parking facility to be constructed on the former American Tobacco property at 201 West Pettigrew Street, Durham, North Carolina, together with any and all additions, modifications, attachments, replacements and parts thereof.

“Federal Securities” means, to the extent such investments qualify under Section 159-30 of the General Statutes of North Carolina as amended from time to time, (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America are pledged (including any securities issued or held in the name of the Trustee in book entry form on the books of the Department of the Treasury of the United States of America) which obligations are held by the Trustee and are not subject to prepayment or purchase prior to maturity at the option of anyone other than the holder; (b) any bonds or other obligations of any state or territory of the United States of America or of any agency, instrumentality or local governmental unit of any such state or territory which are (1) not callable prior to maturity or (2) as to which irrevocable instructions have been given to the trustee or escrow agent of such bonds or other obligations by the obligor to give due notice or prepayment and to call such bonds for prepayment on the date or dates specified, and which are rated by Moody’s, S & P and Fitch Ratings within its highest rating category and which are secured as to principal, prepayment premium, if any, and interest by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) hereof which fund may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate; or (c) evidences of ownership of proportionate interests in future interest and principal payments on specified obligations described in clause (a) or (b) held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying obligations described in clause (a) or (b), and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated.

“Fiscal Year” means the period beginning July 1 of each year and ending on the ensuing June 30.

“Fitch Ratings” means Fitch, Inc., its successors and their assigns, and, if such entity for any reason no longer performs the function of a securities rating agency, *“Fitch Ratings”* will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

“Indenture” means the Indenture of Trust dated as of August 1, 2003 between the Corporation and the Trustee, as amended or supplemented from time to time, pursuant to which the Certificates are executed and delivered.

“Installment Payments” means those payments made by the City to the Corporation as described in the Contract and in the Payment Schedule attached thereto.

“Interest Payment Date” means each December 1 and June 1, beginning December 1, 2003.

“Moody’s” means Moody’s Investors Service, its successors and their assigns, and, if such entity for any reason no longer performs the function of a securities rating agency, *“Moody’s”* will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

“Net Proceeds,” when used with respect to any (1) proceeds from policies of insurance which are payable to the Corporation or the Trustee, (2) proceeds of any condemnation award arising out of the condemnation of all or any portion of the Real Property or the Facilities, (3) proceeds from any bonds required by the Contract or (4) proceeds from any sale or lease of the Facilities or the Real Property pursuant to the Deed of Trust or otherwise, means the amount remaining after deducting from the gross proceeds thereof all expenses (including, without limitation, attorneys’ fees and costs) incurred in the collection of such proceeds.

“Opinion of Counsel” means an opinion in writing of legal counsel, who may be counsel to the Trustee, the City or the Corporation.

“Outstanding” or *“Certificates Outstanding”* means all Certificates which have been executed and delivered, except:

- (a) Certificates canceled or which have been surrendered to the Trustee for cancellation;
- (b) Certificates in lieu of which other Certificates have been authenticated under the Indenture;
- (c) Certificates which have been prepaid as provided in the Indenture (including Certificates prepaid on a partial payment); and
- (d) Certificates which are deemed to have been paid under the Indenture.

“Owner” or *“Owners”* means Cede & Co., as nominee for DTC, or its nominee, and in the event the book-entry system of evidence and transfer of ownership in the Certificates is discontinued pursuant to the Indenture, the registered owner or owners of any Certificate fully registered as shown in the registration books of the Trustee.

“Payment Schedule” means the document attached to the Contract which sets forth the City’s Installment Payments.

“Permitted Investments” means Federal Securities and any other investments which are qualified under Section 159-30 of the General Statutes of North Carolina, as amended from time to time.

“Person” or *“person”* means natural persons, firms, associations, corporations and public bodies.

“Plans and Specifications” means the plans and specifications to be prepared by an architect or architects selected and hired by the City relating to the construction, acquisition, equipping and installation of the Facilities.

“Prepayment Fund” means the special fund of that name created under the Indenture.

“*Project*” means the Facilities and the Real Property on which they are located.

“*Purchase Price*” means the amount advanced by the Corporation to enable the City to acquire, construct, equip and install the Facilities on the Real Property under the terms of the Contract, as such price may be adjusted in connection with the execution and delivery of Additional Certificates pursuant to the Indenture.

“*Real Property*” means the real property on which the Facilities will be located, as described more fully in Exhibit A to the Contract.

“*Revenues*” means (a) all Net Proceeds not applied to the replacement or the Facilities; (b) all Installment Payments; and (c) all other revenues derived from the Contract, excluding Additional Payments.

“*S & P*” means Standard and Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and their assigns, and, if such entity for any reason no longer performs the function of a securities rating agency, “*S & P*” will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

“*State*” means the State of North Carolina.

“*Trust Estate*” means the property, pledged and assigned to the Trustee pursuant to the granting clauses of the Indenture.

“*Trustee*” means Deutsche Bank National Trust Company, having a corporate trust office and place of business in Charlotte, North Carolina, duly organized and existing as a national banking association, being authorized to accept and execute trusts of the character set out in the Indenture by virtue of the laws of the State of North Carolina, acting in the capacity of trustee for the Owners under the Indenture, and any successor thereto appointed under the Indenture.

“*Trustee Representative*” means the person or persons at the time designated to act on behalf of the Trustee for purposes of performing any act on behalf of the Trustee under the Indenture by a written certificate furnished to the City and the Corporation containing the specimen signature of such person or persons and signed on behalf of the Trustee by any duly authorized officer of the Trustee.

“*2003 Certificates*” means the Taxable Certificates of Participation, Series 2003 evidencing proportionate undivided interests in rights to receive Revenues pursuant to the Contract executed and delivered in the aggregate principal amount of \$14,000,000.

THE CONTRACT

Advancement. Pursuant to the Contract, the Corporation will make an advance to the City of the Purchase Price, and the City will accept from the Corporation the Purchase Price to be applied in accordance with the terms and conditions of the Contract. The proceeds of the Purchase Price have been or will be used to acquire, construct, install and equip the Project in accordance with the Plans and Specifications.

Installment Payments; Additional Payments. As consideration for the financing of the Project by the Corporation, the City will pay to the Trustee, as assignee of the Corporation, the Purchase Price. As further consideration therefor, the City will also pay the Additional Payments as required in the Contract. The City will repay the Purchase Price in installments as provided in the Contract and the

Payment Schedule. Each installment will be deemed to be an Installment Payment and will be paid in the amounts and at the times set forth on the Payment Schedule except as provided in the Contract. There will be credited against the amount of Installment Payments otherwise payable under the Contract amounts equal to (1) the portion of the proceeds of the sale of the Certificates which is deposited in the Certificate Fund as accrued interest or as capitalized interest, (2) earnings derived from the investment of the Certificate Fund and the Prepayment Fund, and (3) any other moneys not constituting Installment Payments required to be deposited in the Certificate Fund. Prior to the Completion Date there may, at the direction of the City, be credited against the amount of Installment Payments otherwise payable under the Contract amounts equal to earnings derived from the investment of the Construction Fund. Installment Payments will be sufficient in the aggregate to repay the Purchase Price together with interest thereon. The City will pay the Additional Payments on a timely basis directly to the person or entity to which such Additional Payments are owed.

Prepayment. If the City has performed all of its obligations under the Contract, it will have the option to prepay or provide for the prepayment of the Purchase Price on or after June 1, 2013, in full or in part in the amount of \$5,000 or any integral multiple thereof on 45 days' notice to the Trustee, at a prepayment price equal to the then applicable prepayment price of the Certificates, including any required prepayment premium under the Indenture.

In the event of loss or damage to the Facilities or condemnation of the Real Property or the Facilities resulting in Net Proceeds in excess of \$100,000, if the Net Proceeds (plus any amount withheld therefrom by reason of any deductible clause) are insufficient to pay in full the cost of any repair, restoration, modification, improvement or replacement of the Facilities as required by the Contract, and if the City has otherwise performed all of its obligations under the Contract, the City may apply such Net Proceeds to prepay the 2003 Certificates on 45 days' notice to the Trustee, at a prepayment price equal to 100% of the par amount of the 2003 Certificates plus accrued interest to the prepayment date, by depositing such Net Proceeds into the Prepayment Fund. If, however, the City uses other available moneys to prepay the Purchase Price in whole or in part, then the amount of such available moneys may not exceed one-third of the amount of Net Proceeds so applied.

In the event of a partial prepayment of the Purchase Price, the Payment Schedule will be recalculated as necessary by the Trustee in the manner required by the Indenture.

Title. Title to the Real Property and the Facilities and any and all additions, repairs, replacements or modifications thereto will be in the City from and after the date of execution and delivery of the Contract so long as the City is not in default thereunder. Title to the Real Property and the Facilities will vest permanently in the City on the payment in full of the Purchase Price, free and clear of any lien or security interest of the Trustee therein. Simultaneously with the execution and delivery of the Contract, the City will deliver to the Trustee the Deed of Trust in form satisfactory to the Corporation and the Trustee. On payment in full of all of the City's obligations under the Contract, including the Purchase Price and all other payments due thereunder, the Corporation or its assignee, at the City's expense and request, will discharge the Indenture and release the lien on the Deed of Trust and the Contract will terminate.

Damage, Destruction or Condemnation; Use of Net Proceeds.

-- ***Damage, Destruction or Condemnation.*** If, during the term of the Contract, (1) the Real Property or the Facilities or any portion thereof is destroyed, or is damaged by fire or other casualty; (2) title to or the temporary or permanent use of the Real Property or the Facilities or any portion thereof or the estate of the City or the Corporation or its assignee in the Real Property or the Facilities or any portion thereof is taken under the power of eminent domain by any governmental authority; (3) a material defect in

construction of the Facilities becomes apparent; or (4) title to or the use of all or any portion of the Real Property or the Facilities is lost by reason of a defect in title thereto, then the City will continue to be obligated, subject to the prepayment provisions of the paragraph below titled “--*Discharge of the Obligation of the City to Repair the Facilities*,” to pay the amounts specified in the Contract at the respective times required regardless of whether the documentation provided for in the Contract has been delivered.

-- *Obligation of the City To Repair and Replace the Facilities.* Subject to the provisions of the following paragraph, the Trustee will cause the Net Proceeds of any insurance policies, performance or payment bonds, condemnation awards or Net Proceeds received as a consequence of default under a Construction Contract or made available by reason of any occurrence described under the caption “*Payment and Performance Bonds*,” “*Property Insurance*” or “--*Damage, Destruction or Condemnation*” in this Appendix B, to be deposited in the Construction Fund, if relating to the Real Property or the Facilities and if received before the Completion Date, or, if received thereafter, to be deposited in a separate fund held by the Trustee. Except as set forth under the caption “--*Discharge of the Obligation of the City To Repair the Facilities*” in this Appendix B, all Net Proceeds so deposited will be applied to the prompt repair, restoration, modification, improvement or replacement of the Facilities on receipt of requisitions acceptable to the Trustee approved by the City Representative stating with respect to each payment to be made: (a) the requisition number; (b) the name and address of the person, firm or corporation to whom payment is due; (c) the amount to be paid; and (d) that each obligation mentioned therein has been properly incurred, is a proper charge against the Construction Fund, or such separate fund, and has not been the basis of any previous withdrawal and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. The Trustee will cooperate with the City in the administration of such separate fund and will not unreasonably withhold its approval of requisitions under this paragraph. Any repair, restoration, modification, improvement or replacement paid for in whole or in part out of such Net Proceeds will be the property of the City, subject to the Deed of Trust if relating to the Real Property or the Facilities, and will be included as part of the Facilities under the Contract.

-- *Discharge of the Obligation of the City To Repair the Facilities.* If the Net Proceeds (plus any amount withheld therefrom by reason of any deductible clause) are insufficient to pay in full the cost of any repair, restoration, modification, improvement or replacement of the Facilities as required under the Contract, the City may elect to proceed under either of the following options; provided that the option set forth in subparagraph (b) below will be available only in the event such Net Proceeds equal or exceed \$100,000:

(a) The City may complete the work and pay any cost in excess of the amount of the Net Proceeds, and the City agrees that, if by reason of any such insufficiency of the Net Proceeds, the City will make any payments pursuant to the provisions of this subparagraph, the City is not entitled to any reimbursement therefor from the Corporation, the Trustee or the Owners nor is the City entitled to any diminution of the amounts payable under the Contract.

(b) The obligation of the City to repair or replace the Facilities under the Contract may, at the option of the City, be discharged by causing the Net Proceeds of such insurance policies, performance bonds or condemnation awards to be applied to the prepayment of all or any part of the Purchase Price in accordance with the Contract. If the Net Proceeds exceed the Purchase Price in accordance with the Contract, such excess will be paid to or retained by the City.

Within 90 days of the occurrence of an event specified under the caption “--*Damage, Destruction or Condemnation*” in this Appendix B, the City will commence the repair, restoration, modification, improvement or replacement of the Facilities or will elect, by written notice to the Trustee, to proceed under the provisions of subparagraph (b) above. For purposes of this paragraph, “commence” will include the retention of an architect or engineer in anticipation of repair, restoration, modification, improvement or replacement of the Facilities. If the City, after commencing the repair, restoration, modification, improvement or replacement of the Facilities, determines that the Net Proceeds (plus any amount withheld therefrom by reason of any deductible clause) are insufficient for the accomplishment thereof, the City may, subject to the proviso set forth above, elect to proceed under subparagraph (b) above.

-- *Cooperation of the Corporation.* The Corporation will cooperate fully with the City and the Trustee in filing any proof of loss with respect to any insurance policy covering the events described under the caption “--*Damage, Destruction or Condemnation*” in this Appendix B, and has assigned to the Trustee any interest it may have in such policies or rights of action for such purposes. In no event will the Corporation or the City voluntarily settle, or consent to the settlement of, any proceeding arising out of any insurance claim with respect to the Facilities without the written consent of the other.

Care and Use. Subject to the provisions of applicable law and the Contract, the City will use the Real Property and the Facilities in a careful and proper manner, in compliance with all applicable laws and regulations, and, at its cost and expense, will service, repair and maintain the Real Property and the Facilities so as to keep the Real Property and the Facilities in good condition, repair, appearance and working order for the purposes intended, ordinary wear and tear excepted. Unless the City exercises one of its prepayment options under the Contract, the City will replace any part of the Facilities as may from time to time become worn out, unfit for use, lost, stolen, destroyed or damaged. Any and all additions to or replacements of the Facilities and all parts thereof will constitute accessions to the Facilities and will be subject to all the terms and conditions of the Contract and included in the term “*Facilities*,” as used in the Contract.

Limited Obligation of the City. NOTWITHSTANDING ANY PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST WHICH MAY BE TO THE CONTRARY, NO PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST WILL BE CONSTRUED OR INTERPRETED AS CREATING A PLEDGE OF THE FAITH AND CREDIT OF THE CITY WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE. NO PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST WILL BE CONSTRUED OR INTERPRETED AS CREATING A DELEGATION OF GOVERNMENTAL POWERS NOR AS A DONATION BY OR A LENDING OF THE CREDIT OF THE CITY WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE. THE CONTRACT, THE INDENTURE AND THE DEED OF TRUST WILL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE CITY TO MAKE ANY PAYMENTS BEYOND THOSE APPROPRIATED IN THE SOLE DISCRETION OF THE CITY FOR ANY FISCAL YEAR IN WHICH THE CONTRACT IS IN EFFECT; PROVIDED, HOWEVER, ANY FAILURE OR REFUSAL BY THE CITY TO APPROPRIATE FUNDS WHICH RESULTS IN THE FAILURE BY THE CITY TO MAKE ANY PAYMENT COMING DUE UNDER THE CONTRACT WILL IN NO WAY OBVIATE THE OCCURRENCE OF THE EVENT OF DEFAULT RESULTING FROM SUCH NONPAYMENT. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE CITY IN ANY ACTION FOR BREACH OF A CONTRACTUAL OBLIGATION UNDER THE CONTRACT, AND THE TAXING POWER OF THE CITY IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONEYS DUE UNDER THE CONTRACT. NO PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST WILL BE CONSTRUED TO PLEDGE OR TO CREATE A LIEN ON ANY CLASS OR SOURCE OF THE CITY’S MONEYS, NOR WILL ANY PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST RESTRICT THE FUTURE ISSUANCE OF ANY OF THE CITY’S BONDS OR OBLIGATIONS PAYABLE FROM ANY CLASS OR SOURCE OF THE CITY’S MONEYS. THIS PROVISION WILL TAKE PRIORITY OVER ANY PROVISION OF THE CONTRACT, THE INDENTURE OR THE DEED OF TRUST THAT CONFLICTS WITH ITS TERMS.

Payment and Performance Bonds. The City will cause ACL or the general contractor entering into a construction contract for the construction, renovation or improvement of the Facilities to furnish a performance bond and a separate labor and material payment bond, together with a certification from ACL or such contractor, as the case may be, certifying that the amounts of each of such bonds reflect the total project costs payable to ACL or such contractor by the City. Such bonds will be consistent with the forms provided in North Carolina General Statutes, Article 3, Chapter 44A, copies of which will be provided to the Trustee.

In the event of any material default by a contractor under any construction contract, or in the event of a material breach of warranty with respect to any materials, workmanship or performance, the City will promptly proceed, either separately or in conjunction with others, to pursue diligently its remedies against such contractor and/or against each surety of any bond securing the performance of the Construction Contract. The Net Proceeds of any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing, remaining after deduction of expenses incurred in such recovery (including, without limitation, attorneys' fees and costs), and after reimbursement to the City of any amounts theretofore paid by the City and not previously reimbursed to the City for correcting or remedying the default or breach of warranty which gave rise to the proceedings against the contractor or surety, will be paid to the Trustee for deposit into the Construction Fund if received before the Completion Date therefor or if received thereafter, will be deposited or applied as otherwise provided in the Contract. The Net Proceeds of any performance or payment bond or insurance policy (that is payable to the Corporation or the Trustee) required by the Contract will likewise be paid into the Construction Fund if received before the Completion Date, or, if received thereafter, will be deposited or otherwise applied as provided in the Contract.

Property Insurance. The City will continually maintain insurance to the full insurable value of the Facilities, against loss by fire, hazards customarily included in the term "extended coverage" and such other hazards as the Trustee may reasonably require in such a manner and in such companies as the Trustee may from time to time require and will promptly pay all premiums therefor when due. All insurance policies and renewals thereof will name the Corporation and the Trustee as parties insured thereunder, as the respective interests of each of such parties may appear, and have attached thereto a mortgagee long form loss payable clause in favor of the Trustee, and provide that no such policy can lapse or be cancelled, substantially modified or terminated without at least 60 days prior notice to the Trustee and that any loss payable thereunder will be made payable and will be applied as provided in the Contract. In the event of loss, the City will give immediate notice by mail to the Trustee, who may, but will not be obligated to, make proof of loss. In the event of foreclosure of the Deed of Trust or other transfer of title to the Facilities, all right, title and interest of the City in any insurance policies then in force will pass to the Trustee. Additionally, during the term of the Contract, the City will continually maintain standard liability insurance as is customarily maintained by like entities with respect to facilities similar to the Facilities.

The City may provide for and maintain the insurance required under the Contract partially or wholly by means of an adequate claims management fund. Reserves for a claims management fund will be determined by using actuarial principles. Any claims management fund will be reviewed by June 30 of each year by the City's Finance Officer and an independent insurance consultant or actuarial consultant. The Trustee may rely on a letter of the City's Finance Officer and an independent insurance consultant (dated as of the first day of the Fiscal Year) as to the adequacy of any claims management fund.

Assignment. The City will not sell, assign, lease, sublease, pledge or otherwise encumber or suffer a lien or encumbrance on or against any interest in the Contract, the Real Property, or the Facilities

(except for the lien and security interest of the Corporation therein or except for any permitted encumbrances under the Contract) without the Trustee's prior written consent which will not be unreasonably withheld.

Amendments and Modifications. No amendment to the Contract which would increase the amount or maturity of Certificates Outstanding will be made without the approval of the Local Government Commission of North Carolina.

Events of Default. The occurrence of any of the following will be deemed Events of Default under the Contract:

(a) The City fails to make any Installment Payment or Additional Payment when due;

(b) The City fails to budget and appropriate moneys sufficient to pay all Installment Payments and the reasonably estimated Additional Payments coming due in any Fiscal Year; or

(c) The City fails to perform or observe any term, condition or covenant of the Contract on its part to be observed or performed, other than as referred to in (a) or (b) above, or of the Deed of Trust on its part to be observed or performed, or breaches any warranty by the City contained in the Contract or the Deed of Trust, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Trustee unless the Trustee will agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure cannot be corrected within the stated period, the Trustee will not unreasonably withhold consent for an extension not longer than 180 days.

(d) The City fails to satisfy any of the City's general obligation bonded indebtedness when required under the instruments evidencing such obligations;

(e) Any bankruptcy, insolvency or reorganization proceedings or similar litigation is instituted by the City, or a receiver, custodian or similar officer is appointed for the City or any of its property, and such proceedings or appointments are not vacated or fully stayed within 90 days after the institution or occurrence thereof; or

(f) Any warranty, representation or statement made by the City in the Contract, in the Deed of Trust or in any other document executed or delivered in connection therewith is found to be incorrect or misleading in any material respect on the date made.

Remedies on Default. On the occurrence of any Event of Default, the Trustee may, to the extent permitted by applicable law and the Contract, exercise any one or more of the following remedies as the Trustee, in its sole discretion, elects:

(a) Declare the unpaid portion of the principal components of Installment Payments immediately due and payable without notice or demand to the City;

(b) Proceed by appropriate court action to enforce performance by the City of the applicable covenants of the Contract or to recover for the breach thereof;

(c) Exercise all the rights and remedies of a secured party or creditor under the Uniform Commercial Code of the State and the general laws of the State with respect to the enforcement of the security interest granted or reserved under the Contract including, without

limitation, to the extent permitted by law, re-enter and take possession of the Real Property, or the Facilities without any court order or other process of law and without liability for entering the premises and sell, lease, sublease or make other disposition of the same in a commercially reasonable manner for the account of the City, and apply the proceeds of any such sale, lease, sublease or other disposition, after deducting all costs and expenses, including court costs and attorneys' fees, incurred with the recovery, repair, storage and other sale, lease, sublease or other disposition, toward the balance due under the Contract and, thereafter, will pay any remaining proceeds to the City; or

(d) Enforce its security interest to direct the Deed of Trust trustee to institute foreclosure proceedings under the Deed of Trust and sell the Facilities.

NOTWITHSTANDING ANY OTHER PROVISIONS UNDER THE CONTRACT, IT IS THE INTENT OF THE PARTIES TO THE CONTRACT TO COMPLY WITH GENERAL STATUTES OF NORTH CAROLINA SECTION 160A-20. NO DEFICIENCY JUDGMENT MAY BE ENTERED AGAINST THE CITY IN FAVOR OF THE TRUSTEE IN VIOLATION OF SECTION 160A-20 INCLUDING, WITHOUT LIMITATION, ANY DEFICIENCY JUDGMENT FOR AMOUNTS THAT MAY BE OWED UNDER THE CONTRACT WHEN THE SALE OF ALL OR ANY PORTION OF THE FACILITIES IS INSUFFICIENT TO PRODUCE ENOUGH MONEY TO PAY IN FULL ALL REMAINING OBLIGATIONS UNDER THE CONTRACT.

THE INDENTURE

Funds and Accounts. The Indenture creates (1) the Certificate Fund; (2) the Prepayment Fund; (3) the Cost of Issuance Fund; and (4) the Construction Fund, to be held in trust by the Trustee.

-- *The Certificate Fund.* There has been created and established with the Trustee a special fund to be designated "*City of Durham, North Carolina 2003 Installment Purchase Contract Certificate Fund*," the moneys in which will be used to pay the principal, premium, if any, and interest with respect to the Certificates. Within the Certificate Fund, there has been created and established an "*Interest Account*" and a "*Principal Account*," the moneys in which will be used as set forth in the Indenture.

There will be deposited into the Interest Account of the Certificate Fund (a) all accrued interest received at the time of the sale and delivery of the Certificates; (b) that portion of each payment of Installment Payments which is designated and paid as interest under the Contract; (c) investment earnings on the Interest Account of the Certificate Fund and the Prepayment Fund, as provided in the Indenture; (d) Net Proceeds from any lease of the Premises after an Event of Default to the extent required to pay the next installment of interest with respect to the Certificates or any previous installment of interest not paid; (e) moneys transferred from the Cost of Issuance Fund pursuant to the Indenture; and (f) all other moneys received by the Trustee under the Indenture accompanied by directions from the City that such moneys are to be deposited into the Interest Account of the Certificate Fund. The Trustee will credit all amounts deposited into the Interest Account of the Certificate Fund, including particularly the amounts set forth in the Contract, toward the Installment Payment then due and payable under the Contract. The Trustee will notify the City of all amounts credited toward Installment Payments within 30 days of such credit.

There will be deposited into the Principal Account of the Certificate Fund (a) that portion of each payment of Installment Payments which is designated and paid as principal under the Contract; (b) Net Proceeds from any lease of the Premises after an Event of Default after the deposit described in the preceding paragraph; (c) investment earnings on the Principal Account of the Certificate Fund; and (d) all other moneys received by the Trustee under the Indenture accompanied by directions from the City that such moneys are to be deposited into the Principal Account of the Certificate Fund.

Moneys in the Interest Account of the Certificate Fund will be used solely for the payment of the interest with respect to the Certificates. Moneys in the Principal Account of the Certificate Fund will be used solely for the payment of the principal of the Certificates. Investment earnings on moneys on deposit in the Certificate Fund will be applied to the next payment of Installment Payments. If the Certificates are to be prepaid in whole pursuant to the Indenture, any moneys remaining in the Certificate Fund will be applied to such prepayment along with other moneys held by the Trustee for such purpose.

-- *The Prepayment Fund.* There has been created and established with the Trustee the “*City of Durham, North Carolina 2003 Installment Purchase Contract Prepayment Fund*,” into which will be deposited all Net Proceeds and other available funds, to the extent the same is required to be deposited therein under the Indenture or the Contract, and any other moneys provided by the City as a prepayment of principal components of Installment Payments. Moneys on deposit in the Prepayment Fund will be disbursed for prepayment of the Certificates as provided in the Indenture. Any income from investment of moneys in the Prepayment Fund will be deposited into the Interest Account of the Certificate Fund and applied to the next payment of the Installment Payments. Whenever any moneys on deposit in the Prepayment Fund are disbursed for prepayment of less than all of the Outstanding Certificates, the Installment Payments set forth in the Contract will be recalculated by the Trustee to reflect the reduction in the outstanding principal amount of the Certificates after such prepayment. The Installment Payments, as recalculated, will be payable five Business Days prior to June 1 and five Business Days prior to December 1 in amounts equal to the amount necessary to pay the principal and interest with respect to the Certificates coming due on the next occurring June 1 or December 1, as the case may be.

-- *The Cost of Issuance Fund.* There has been created and established with the Trustee the “*City of Durham, North Carolina 2003 Installment Purchase Contract Cost of Issuance Fund*.” There will be deposited into the Cost of Issuance Fund the amounts set forth in the Indenture. Moneys in the Cost of Issuance Fund will be used to pay the costs incurred in connection with the execution and delivery of the Certificates, including all printing expenses in connection with the Indenture, the Contract, and the documents and certificates contemplated thereby, the Preliminary Official Statement and the Official Statement for the Certificates, and the Certificates, the blue-sky fees and expenses, legal fees and expenses of counsel to the Corporation, special counsel, counsel to the City, other counsel, counsel to the purchaser or purchasers of the Certificates, rating agency fees, any accounting expenses incurred in connection with determining that the Certificates are not “arbitrage bonds” within the meaning of the Code, the Trustee’s initial fees and expenses (including attorney’s fees), and state license fees, upon the submission of requisitions by the City signed by a City Representative stating the amount to be paid, to whom it is to be paid and the reason for such payment, and that the amount of such requisition is justly due and owing and has not been the subject of another requisition which was paid and is a proper expense of executing and delivering the Certificates. Any funds from the proceeds of the 2003 Certificates remaining in the Cost of Issuance Fund on November 25, 2003 will be transferred to the Construction Fund.

-- *The Construction Fund.* There has been created and established with the Trustee a special fund to be designated “*City of Durham, North Carolina 2003 Installment Purchase Contract Construction Fund*.” The balance of the proceeds from the sale of the 2003 Certificates remaining after the deposits set forth in the Indenture will be deposited in the Construction Fund. In addition, the Trustee will deposit into the Construction Fund such amounts as the City may designate in a certificate signed by a City Representative in connection with the issuance of Additional Certificates pursuant to the Indenture. The Trustee will create accounts within the Construction Fund on the City’s written direction. Any moneys held in the Construction Fund or any account thereof will be invested and reinvested by the Trustee in accordance with the Indenture, and the income therefrom will be retained in the Construction Fund or any account thereof and used (together with all other moneys held in the Construction Fund) to pay the Cost

of Construction attributable to the Project. Moneys held in the Construction Fund will be disbursed in accordance with the Contract. Moneys may be moved from one account to another account in the Construction Fund on the City's written direction.

Investment of Moneys. All moneys held as part of the Certificate Fund, the Prepayment Fund, the Construction Fund or any other fund or account created under the Indenture or under the Contract will be deposited or invested and reinvested by the Trustee, at the written direction of the City as agent of the Corporation, in deposits or investments, which are Permitted Investments; provided, however, that the City will not cause the Trustee to make deposits or investments of any fund or account created under the Indenture which will interfere with or prevent withdrawals for payment of the Certificates at or before maturity or interest thereon as required under the Indenture. Any and all such deposits or investments will be held by or under the control of the Trustee. The Trustee may make any and all such deposits or investments through its own investment department or the investment department of any bank or trust company under common control with the Trustee. The Trustee has been specifically authorized to enter into agreements with itself or any other person, which agreements guarantee the repurchase of specific Permitted Investments at specific prices. Except as expressly provided in the Indenture, deposits or investments will at all times be a part of the fund or account from which the moneys used to acquire such deposits or investments will have come, and all income and profits on such deposits or investments will be credited to, and losses thereon will be charged against, such fund or account. In computing the amount in any fund or account held under the provisions of the Indenture, obligations purchased as a deposit or investment of moneys therein will be valued at the market price thereof, exclusive of accrued interest. Where market prices for obligations held under the Indenture are not readily available, the market price for such obligations may be determined in such manner as the Trustee deems reasonable. The Trustee will sell and reduce to cash a sufficient amount of such deposits or investments whenever the cash balance in any fund or account created under the Indenture is insufficient to satisfy the purposes of such fund or account.

Additional Certificates. So long as the Contract remains in effect and no Event of Default has occurred, Additional Certificates may be executed and delivered upon the terms and conditions provided in the Indenture.

Additional Certificates may be delivered by the Trustee at the direction of the Corporation to provide funds to pay: (1) the cost of completing the construction, acquisition, installation and equipping of the Project, in excess of the amount therefor in the Construction Fund pursuant to the Indenture; (2) the cost of expanding the Project or constructing, acquiring, installing, rehabilitating and equipping other facilities for utilization by the City for public purposes; (3) the cost of refunding of all or any portion of the Certificates then Outstanding; and (4) the cost of the execution, delivery and sale of the Additional Certificates, and such other costs reasonably related to the refunding, as will be agreed upon by the Corporation and the Trustee.

Additional Certificates may be executed and delivered only on there being filed with the Trustee:

(a) Originally executed counterparts of a supplemental indenture and an amendment to the Contract adopted in accordance with the requirements of the Indenture and approved by the Local Government Commission of the State, including requirements regarding approval of the Owners, if applicable, expressly providing that the Certificates being executed and delivered as well as any Certificates and Additional Certificates theretofore executed and delivered will be secured on a parity as hereinafter provided, except that the date or dates of the Additional Certificates, the rate or rates of interest with respect to the Additional Certificates, the time or times of payment of the interest thereon and the principal amount thereof, and provisions for the prepayment thereof, if any, all will be as provided in the supplemental indenture and amendment

to the Contract, and further providing for an increase in the Purchase Price and the Installment Payments required or authorized to be paid to the Trustee under the Contract in such amount as will be necessary to pay (assuming that no Event of Default will occur), the principal, premium, if any, and interest with respect to the Additional Certificates.

(b) A written opinion or opinions of nationally recognized bond counsel and mutually acceptable to the City, the Corporation and the Trustee, to the effect that the amendment to the Contract and the authentication of the Additional Certificates have been duly authorized, that the amendment to the Contract is valid and enforceable against the City and that the federal or state tax treatment of the interest component of the Installment Payments will not be adversely affected by the execution and delivery of the Additional Certificates, and that the sale and delivery of the Additional Certificates will not constitute a default under the Contract or the Indenture or cause any violation of the covenants, agreements or representations in the Contract or the Indenture.

(c) A written order to the Trustee to deliver the Additional Certificates to the purchaser or purchasers therein identified on payment to the Trustee of a specified sum plus accrued interest, if any.

Each of the Additional Certificates executed and delivered pursuant to the Indenture will evidence a proportionate and undivided interest in rights to receive Revenues under the Contract, as amended, proportionately and ratably secured with the Certificates originally executed and delivered and all other series of Additional Certificates, if any, executed and delivered pursuant to the Indenture, without preference, priority or distinction of any Certificates or Additional Certificates over any other.

Supplemental Indentures.

-- *Consent of Owners Not Required.* The Trustee and the Corporation may, with the written consent of the City, but without the consent of, or notice to, the Owners, enter into such indentures or agreements supplemental to the Indenture for any one or more or all of the following purposes:

(a) To add to the covenants and agreements of the Corporation contained in the Indenture other covenants and agreements to be thereafter observed by the Corporation;

(b) To cure any ambiguity, or to cure, correct or supplement any defect or omission or inconsistent provision contained in the Indenture, or to make any provisions with respect to matters arising under the Indenture or for any other purpose if such provisions are necessary or desirable and do not adversely affect the interests of the Owners; or

(c) To execute and deliver Additional Certificates as provided in the Indenture.

-- *Consent of Owners Required.* Exclusive of supplemental indentures covered under the caption “--Consent of Owners Not Required” in this Appendix B, the written consent of the City and the consent of the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding is required for the execution by the Corporation and the Trustee of any indenture or indentures supplemental to the Indenture; provided, however, that without the consent of the Owners of all the Certificates at the time outstanding affected thereby nothing contained in the Indenture will permit, or be construed as permitting:

(a) A change in the terms of prepayment or maturity of the principal amount of or the interest with respect to any outstanding Certificate, or a reduction in the principal amount of or premium payable upon any prepayment of any outstanding Certificate or the rate of interest thereon;

(b) The deprivation of the Owner of any Certificate then Outstanding of the lien created by the Indenture (other than as originally permitted thereby);

(c) A privilege or priority of any Certificate or Certificates over any other Certificate or Certificates; or

(d) A reduction in the aggregate principal amount of the Certificates required for consent to such supplemental indenture.

If at any time the City or the Corporation requests the Trustee to enter into such supplemental indenture for any of the purposes described above, the Trustee will, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by first-class mail to the Owners of the Certificates then Outstanding at the address shown on the registration books maintained by the Trustee. Such notice will briefly set forth the nature of the proposed supplemental indenture and will state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Owners. If, within 60 days or such longer period as is prescribed by the City following the giving of such notice, the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner will have any right to object to any of the terms and provisions contained therein, or in the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Corporation from executing the same or from taking any action pursuant to the provisions thereof.

Exclusion of Certificates Held By or For the City and the Corporation. In determining whether the Owners of the requisite principal amount of Certificates Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Certificates owned by the City and the Corporation will be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee is protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Certificates which the Trustee knows to be so owned will be disregarded.

Events of Default. Any of the following events are defined as and will be deemed an “*Event of Default*” under the Indenture:

(a) Default in the payment of the principal of or premium, if any, on any Certificate when the same becomes due and payable, whether at the stated maturity thereof or upon proceedings for prepayment.

(b) Default in the payment of any installment of interest with respect to any Certificate when the same becomes due and payable.

(c) The occurrence of an “*Event of Default*” under the Contract.

Remedies on Default.

(a) Upon the occurrence and continuance of an Event of Default, the Trustee may, and if required by a majority in aggregate principal amount of the Owners of the Certificates, will, declare the obligations of the City as to Installment Payments and the aggregate principal amount of Certificates to be immediately due and payable, whereupon they will, without further action, become due and payable, anything in the Indenture or in the Certificates to the contrary notwithstanding.

(b) The provisions of the preceding paragraph are subject to the condition that if, after the principal of any of the Certificates has been so declared to be due and payable, and before the earlier of (1) the exercise of rights granted under the Deed of Trust or (2) to the extent permitted by applicable law and the Indenture, any judgment or decree for the payment of the moneys due has been obtained or entered, the defaulting party (the “*Defaulting Party*”) will cause to be deposited with the Trustee a sum sufficient to pay all matured installments of the principal and interest with respect to all Certificates which have become due otherwise than by reason of such declaration (with interest upon such overdue installments of interest, at the rate per annum borne by the Certificates) and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default under the Indenture other than nonpayment of the principal of the Certificates which have become due by said declaration have been remedied, then, in every such case, such Event of Default will be deemed waived and such declaration and its consequences rescinded and annulled, and the Trustee will promptly give written notice of such waiver, rescission or annulment to the Defaulting Party and will give notice thereof by first-class mail to all Owners; but no such waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

The provisions of paragraph (a) are further subject to the condition that any waiver of any event of default under the Contract and a rescission and annulment of its consequences will constitute a waiver of the corresponding Event of Default under the Indenture and a rescission and annulment of the consequences thereof. If notice of such event of default under the Contract has been given as provided in the Indenture and if the Trustee thereafter has received notice that such event of default has been waived, the Trustee will promptly give written notice of such waiver, rescission or annulment to the Defaulting Party and will give notice thereof by first-class mail to all Owners; but no such waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

(c) Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, to the extent permitted by the Indenture and applicable law, and upon the written direction of Owners of not less than a majority in principal amount of the Certificates Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Trustee of an express trust:

(1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners, and require the Defaulting Party to carry out any agreements with or for the benefit of the Owners and to perform its or their duties under the Contract and the Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Contract or the Indenture, as the case may be;

(2) take whatever action at law or in equity is permissible and may appear necessary or desirable to enforce its rights against the Defaulting Party or the Premises held as security therefor.

No right or remedy is intended to be exclusive of any other rights or remedies, but each and every such right or remedy will be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute. If any Event of Default has occurred and if requested by the Owners of a majority in aggregate principal amount of Certificates then Outstanding and indemnified as provided in the Indenture, the Trustee is obligated to exercise, to the extent permitted by the Indenture and applicable law, such one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, will deem most expedient in the interests of the Owners.

Application of Moneys. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture will, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Certificate Fund and applied as follows:

(a) Unless the principal of all the Certificates has become or has been declared due and payable, all such moneys will be applied:

FIRST - To the payment to the persons entitled thereto of all installments of interest then due with respect to the Certificates, in the order of the maturity of the installments of such interest beginning with the earliest such maturity and, if the amount available is not sufficient, to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

SECOND - To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Certificates which will have become due (other than Certificates matured or called for prepayment for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and beginning with the earliest due date and, if the amount available is not sufficient to pay in full Certificates due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD - To the payment to the persons entitled thereto of all installments of interest with respect to overdue installments of interest and to the payment to the persons entitled thereto of all installments of interest with respect to overdue installments of principal and premium, if any, to the extent permitted by law, and if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such particular installment, to the persons entitled thereto, without any discrimination or privilege; and

FOURTH - To be held for the payment to the persons entitled thereto as the same become due of the principal, premium, if any, and interest with respect to the Certificates which may thereafter become due either at maturity or upon call for prepayment prior to maturity and, if the amount available is not sufficient to pay in full Certificates due on any particular date, together with interest and premium, if any, then due and owing thereon, payment will be made ratably according to the amount of interest, principal and

premium, if any, due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Certificates has become due or has been declared due and payable, all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Certificates, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Certificate over any other Certificate, ratably, according to the amounts due, respectively, for principal and interest, to the persons entitled thereto without any discrimination or privilege, with interest with respect to overdue installments of interest or principal.

Whenever moneys are to be applied pursuant to the provisions described above, such moneys will be applied at such times, and from time to time, as the Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee will apply such funds, it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which such application is to be made and upon such date interest with respect to the amounts of principal to be paid on such dates will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and will not be required to make payment to the Owner of any Certificate until such Certificate is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever the principal, premium, if any, and interest with respect to all of the Certificates have been paid under the provisions of the Indenture and all expenses and charges of the Trustee have been paid, any balance remaining in the Certificate Fund will be paid to the City.

Discharge of Indenture. If, when the Certificates secured by the Indenture become due and payable in accordance with their terms or otherwise as provided in the Indenture, the whole amount of the principal, premium, if any, and interest due and payable with respect to all of the Certificates will be paid or provision has been made for the payment of the same, together with all other sums payable under the Indenture, then the right, title and interest of the Trustee in and to the Trust Estate and all covenants, agreements and other obligations of the Corporation to the Trustee and the Owners will then cease, terminate and become void and be discharged and satisfied. In such event, upon the request of the City, the Trustee will transfer and convey to the City all property assigned or pledged to the Trustee by the Corporation then held by the Trustee pursuant to the Indenture, and the Trustee will execute such documents as may be reasonably required by the City and will turn over to the City any surplus in any fund created under the Indenture.

Outstanding Certificates will, prior to the maturity or prepayment date thereof, be deemed to have been paid within the meaning and with the effect expressed in this section if (a) in case said Certificates are to be prepaid on any date prior to their maturity, the City has given to the Trustee in form satisfactory to the Trustee irrevocable instructions to give on a date in accordance with the provisions of the Indenture notice of prepayment of such Certificates on said prepayment date, (b) there has been deposited with the Trustee either moneys in an amount which will be sufficient, or Federal Securities which will not contain provisions permitting the prepayment thereof at the option of the City, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, sufficient to pay when due the principal, premium, if any, and interest due and to become due with respect to said Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (c) in the event said Certificates are not by their terms subject to prepayment within the next 60 days, the City has given the Trustee in form satisfactory to it (1) irrevocable instructions to give, as soon as practicable in the same

manner as the notice of prepayment is given, a notice to the Owners of such Certificates that the deposit required by (b) above has been made with the Trustee and that said Certificates are deemed to have been paid in accordance with the Indenture and stating such maturity or prepayment date upon which moneys are to be available for the payment of the principal, premium, if any, and interest with respect to said Certificates, (2) verification from an accountant satisfactory to the Trustee that the moneys or Federal Securities deposited with the Trustee will be sufficient to pay when due the principal, premium, if any, and interest due and to become due with respect to the Certificates on and prior to the prepayment date or maturity date thereof, and (3) an opinion of nationally recognized bond counsel that such deposit of moneys or Federal Securities will not adversely affect the federal or state tax treatment of interest with respect to the Certificates. Neither the Federal Securities nor moneys deposited with the Trustee pursuant to the Indenture or principal or interest payments on any such Federal Securities will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal, premium, if any, and interest with respect to said Certificates; provided any cash received from such principal or interest payments on such Federal Securities deposited with the Trustee, if not then needed for such purpose, will, to the extent practicable, be reinvested in Federal Securities of the type described in clause (b) of this paragraph maturing at the times and in amounts sufficient (together with any other moneys or Federal Securities then held by the Trustee as described above) to pay when due the principal, premium, if any, and interest to become due with respect to said Certificates on or prior to such prepayment date or maturity date thereof, as the case may be. At such time as any Certificates will be deemed paid as aforesaid, such Certificates will no longer be secured by or entitled to the benefits of the Indenture and the Contract, except for the purpose of exchange and transfer and any payment from such moneys or Federal Securities deposited with the Trustee.

The release of the obligations of the Corporation described in the preceding paragraphs is without prejudice to the rights of the Trustee to be paid reasonable compensation for all services rendered by it under the Indenture and all its reasonable expenses, charges and other disbursements incurred with respect to the administration of the trust created by the Indenture and the performance of its powers and duties under the Indenture.

THE DEED OF TRUST

Deed of Trust and Security Interest. To secure (1) the obligations of the City to make the Installment Payments and (2) the payment and performance of all of the other liabilities and obligations, whether now existing or hereafter arising, of the City to the Corporation under the Contract and the Deed of Trust, the City has granted and conveyed to the Deed of Trust trustee for the benefit of the Beneficiary, its successors and assigns all right, title and interest that the City now has or may hereafter acquire in the Premises as more fully described in the Deed of Trust.

Release of Premises. Notwithstanding any other provisions of the Deed of Trust, with (A) the consent of the Beneficiary and (B) at any time so long as there is no Event of Default, the Deed of Trust trustee may release the Premises or any part thereof from the lien and security interest of the Deed of Trust only when and if the following requirements have been fulfilled:

- (1) In connection with any release of the Premises, or any part thereof, there will be filed with the Beneficiary a certified copy of the resolution of the City Council for the City stating the purpose for which the City desires such release of the Premises, giving an adequate legal description of the part of the Premises to be released, requesting such release and providing for the payment by the City of all expenses in connection with such release.

(2) In connection with the release of any part of the Premises constituting less than the entire Premises, the appraised value of the Premises remaining after the proposed release (as such appraised value is evidenced by or derived from an appraisal of the remaining Premises prepared by an MAI-approved appraisal firm acceptable to the Deed of Trust trustee) is not less than 110% of the aggregate principal components of the Installment Payments relating to the Certificates then Outstanding.

(3) In connection with the release of any part of the Premises constituting less than the entire Premises, such release will not prohibit the City's ingress, egress and regress to and from the remainder of the Premises not being released, or materially interfere with the use of the remainder of the Premises not being released.

(4) In connection with the release of all property constituting the entire Premises, there is paid to the Beneficiary an amount sufficient to provide for the payment in full of all Outstanding Certificates in accordance with the Indenture.

Events of Default. The terms "*Default*" and "*Event of Default*" as used in the Deed of Trust, will mean any one or more of the following events:

(a) Failure by the City to pay any Additional Payment when due or any Installment Payment by the first day of the month following the date on which such Installment Payment is due;

(b) The occurrence of any other "*Event of Default*" under the Contract; or

(c) Failure by the City to perform or observe any term, condition or covenant of the Deed of Trust on its part to be observed or performed, other than as referred to in (a) or (b) above, or breach of any warranty by the City therein contained, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Trustee or the Beneficiary unless the Trustee or the Beneficiary agrees in writing to an extension of such time before its expiration; provided, however, that if the failure cannot be corrected within the stated period, the Trustee or the Beneficiary will not unreasonably withhold consent for an extension not longer than 180 days.

Acceleration upon Default; Additional Remedies. In the event an Event of Default has occurred and is continuing, the Beneficiary may declare all Indebtedness to be due and payable and the same will thereupon become due and payable in accordance with the Contract and the Deed of Trust without any presentment, demand, protest or notice of any kind. Thereafter, the Beneficiary may, to the extent permitted by applicable law and the Contract:

(a) Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its security, enter upon and take possession of the Premises, or any part thereof, in its own name or in the name of the Deed of Trust trustee, and do any acts which it deems necessary or desirable to preserve the value, marketability or rentability of the Premises, or part thereof or interest therein, increase the income therefrom or protect the security hereof, and, with or without taking possession of the Premises, sue for or otherwise collect the rents and issues thereof, including those rents and issues past due and unpaid, and apply the same, less costs and expenses of operation and collection including attorney's fees, upon any Indebtedness, all in such order as the Beneficiary may

determine. The entering upon and taking possession of the Premises, the collection of such rents and issues and the application thereof as aforesaid will not cure or waive any Event of Default or notice of Event of Default under the Deed of Trust or invalidate any act done in response to such Default or pursuant to such notice of Default, and, notwithstanding the continuance in possession of the Premises or the collection, receipt and application of rents and issues, the Deed of Trust trustee or the Beneficiary, to the extent permitted by applicable law and the Contract, will be entitled to exercise every right provided for in any instrument securing or relating to the Indebtedness or by law upon occurrence of any Event of Default, including the right to exercise the power of sale;

(b) Commence an action to foreclose the Deed of Trust as a mortgage, specially enforce any of the covenants hereof, or cause the Trustee to foreclose the Deed of Trust by power of sale; and

(c) To the extent permitted by applicable law and the Contract, exercise any or all of the remedies available to a secured party under the Uniform Commercial Code of North Carolina or under any other applicable laws.

NOTWITHSTANDING ANY PROVISIONS CONTAINED IN THE DEED OF TRUST, IT IS THE INTENT OF THE PARTIES TO COMPLY WITH THE PROVISIONS OF NORTH CAROLINA GENERAL STATUTES SECTION 160A-20. NO DEFICIENCY JUDGMENT MAY BE ENTERED AGAINST THE CITY IN FAVOR OF THE BENEFICIARY IN VIOLATION OF SECTION 160A-20, INCLUDING, WITHOUT LIMITATION, ANY DEFICIENCY JUDGMENT FOR AMOUNTS THAT MAY BE OWED UNDER THE CONTRACT OR THE DEED OF TRUST WHEN THE SALE OF ALL OR ANY PORTION OF THE PREMISES IS INSUFFICIENT TO PRODUCE ENOUGH MONEY TO PAY IN FULL ALL REMAINING OBLIGATIONS UNDER THE CONTRACT OR THE DEED OF TRUST. NOTWITHSTANDING ANY PROVISION TO THE CONTRARY IN THE DEED OF TRUST, NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE CITY IN ANY ACTION TO COLLECT ANY OF THE INDEBTEDNESS SECURED BY THE DEED OF TRUST AND THE TAXING POWER OF THE CITY IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONIES DUE OR SECURED UNDER THE DEED OF TRUST.

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APPENDIX C

FORM OF OPINIONS OF CO-SPECIAL COUNSEL

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APPENDIX C

FORM OF OPINION OF EACH OF CO-SPECIAL COUNSEL

[Letterhead of each of Co-Special Counsel]

August 27, 2003

New Durham Corporation
Durham, North Carolina

City of Durham, North Carolina
Durham, North Carolina

Deutsche Bank National Trust Company
Charlotte, North Carolina

\$14,000,000

*Taxable Certificates of Participation, Series 2003
Evidencing Proportionate Undivided Interests in Rights
to Receive Certain Revenues Pursuant to an Installment Purchase Contract
Between New Durham Corporation and the City of Durham, North Carolina*

Ladies and Gentlemen:

We have acted as Co-Special Counsel in connection with the execution and delivery of \$14,000,000 aggregate principal amount of Taxable Certificates of Participation, Series 2003 (the “*2003 Certificates*”), evidencing proportionate undivided interests in rights to receive certain revenues pursuant to an Installment Purchase Contract dated as of August 1, 2003 (the “*Contract*”) between New Durham Corporation, a nonprofit corporation organized and existing under the Constitution and laws of the State of North Carolina (the “*Corporation*”), and the City of Durham, North Carolina (the “*City*”). The 2003 Certificates are being executed and delivered pursuant to an Indenture of Trust dated as of August 1, 2003 (the “*Indenture*”) between the Corporation and Deutsche Bank National Trust Company, as trustee (the “*Trustee*”). The Corporation has assigned to the Trustee pursuant to the Indenture all of its rights, title and interest in and to (1) the Contract, including the right to receive Installment Payments and excluding certain reserved rights described in the Indenture, and (2) the Deed of Trust. All capitalized terms used but not defined herein have the meanings given to such terms in the Contract and the Indenture.

The proceeds of the 2003 Certificates will be disbursed by the Trustee to pay the capital costs of acquiring, constructing and equipping a portion of a multi-level parking facility. The City has agreed under the Contract to pay its Installment Payments required thereunder directly to the Trustee.

In the capacity of Co-Special Counsel, we have examined executed copies of the Indenture, the Contract and the Deed of Trust, a specimen 2003 Certificate and such law and certified proceedings, instruments, opinions and other documents as we have deemed necessary to render the opinions hereinafter expressed. As to questions of fact material to the opinions hereinafter expressed, we have relied upon representations of the Corporation and the City contained in the Contract and the related

documents thereto, the certified proceedings and other certifications of public officials and others furnished to us, including certifications furnished to us by or on behalf of the Corporation and the City, without undertaking to verify the same by independent investigation. We have also relied upon the opinion of Henry D. Blinder, Esq., City Attorney, dated the date hereof, with respect to the due authorization, execution and delivery of the Contract and the Deed of Trust by the City and the opinion of Wyrick Robbins Yates & Ponton LLP, counsel to the Corporation, dated the date hereof, with respect to the due authorization, execution and delivery of the Indenture and the Contract by the Corporation. We have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, and documents and proceedings.

On the basis of the foregoing, we are of the opinion, under existing law, that:

1. The Indenture has been duly authorized, executed and delivered by the Corporation and is a valid, binding and enforceable obligation of the Corporation and, assuming the due authorization, execution and delivery of the Indenture by the Trustee, creates a valid lien on the Revenues in favor of the Trustee for the benefit of the owners of the 2003 Certificates.
2. The Contract has been duly authorized, executed and delivered by the City and the Corporation and is a valid, binding and enforceable obligation of the City and the Corporation.
3. The Deed of Trust has been duly authorized, executed and delivered by the City and is a valid, binding and enforceable obligation of the City.
4. The 2003 Certificates have been duly authorized, executed and delivered for the purpose described above. The 2003 Certificates evidence valid and legally binding proportionate undivided interests in the Revenues pursuant to the Contract, enforceable in accordance with their terms. The 2003 Certificates are entitled to the benefits and security of the Indenture for the payment thereof from certain amounts to be paid under the Contract in accordance with the terms of the Indenture and the Contract.
5. The portion of the Installment Payments designated and paid as interest with respect to the 2003 Certificates, as provided in the Contract (including any original issue discount properly allocable to an owner of 2003 Certificates), to the registered owners of the 2003 Certificates is not excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.
6. The portion of the Installment Payments designated and paid as interest with respect to the 2003 Certificates, as provided in the Contract, to the registered owners of the 2003 Certificates is exempt from State of North Carolina income taxation.

It is to be understood that the rights of the owners of the 2003 Certificates and the enforceability of the Indenture, the Contract, the Deed of Trust and the 2003 Certificates may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, liquidation, readjustment of debt and

New Durham Corporation
City of Durham, North Carolina
Deutsche Bank National Trust Company
August 27, 2003
Page 3

other similar laws affecting creditors' rights and remedies generally, and by general principles of equity, whether such principles are considered in a proceeding at law or in equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement relating to the 2003 Certificates.

Respectfully submitted,

**[TO BE SIGNED BY EACH OF CO-SPECIAL
COUNSEL]**

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APPENDIX D
BOOK-ENTRY-ONLY SYSTEM

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The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2003 Certificates. The 2003 Certificates will be delivered as fully-registered certificates registered in the name of Cede & Co., DTC’s partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for each maturity of the 2003 Certificates will be registered in the name of Cede & Co., as nominee for DTC, each in the aggregate principal amount of such maturity and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2003 CERTIFICATES, AS DTC’S PARTNERSHIP NOMINEE, REFERENCES HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE 2003 CERTIFICATES SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2003 CERTIFICATES.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC’s direct participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of its Direct Participants and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation, as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC is rated AAA by Standard & Poor’s Ratings Services (“S&P”). The DTC Rules applicable to its Direct and Indirect Participants are on the file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2003 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 Certificates on DTC’s records. The ownership interest of actual purchasers of the 2003 Certificates (“Beneficial Owners”) is in turn recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the 2003 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2003 Certificates, except in the event that use of the book-entry system for the 2003 Certificates is discontinued.

To facilitate subsequent transfers, all 2003 Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2003 Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 Certificates; DTC’s

records reflect only the identity of the Direct Participants to whose accounts the 2003 Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2003 Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2003 Certificates, such as prepayments, tenders, defaults and proposed amendments to the security documents.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2003 Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2003 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments with respect to the 2003 Certificates will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC, the City or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its service as securities depository with respect to the 2003 Certificates at any time by giving reasonable notice to the City and the Trustee. Under such circumstances, or in the event the City desires to use a similar book-entry system with another securities depository, there may be a successor securities depository (all references to DTC include any such successor). The City may also decide to discontinue participation in the system of book-entry transfer through DTC (or a successor securities depository) at any time by giving reasonable notice to DTC. If the book-entry system is discontinued and there is no successor securities depository, 2003 Certificate certificates will be printed and delivered to the Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the City and the Corporation take no responsibility for the accuracy thereof.

The City, the Corporation and the Trustee cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the 2003 Certificates (a) payments of principal, premium, if any, or interest with respect to the 2003 Certificates, (b) confirmations of their ownership interests in the 2003 Certificates or (c) prepayment or other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of the 2003 Certificates, or that they will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

NEITHER THE CITY, THE CORPORATION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR PREPAYMENT PRICE OR INTEREST WITH RESPECT TO THE 2003 CERTIFICATES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL PREPAYMENT OF THE 2003 CERTIFICATES; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.

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